

40-7580

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re: ) Chapter 11  
)  
FANSTEEL INC., et al.,<sup>1</sup> ) Case No. 02-10109 (JJF)  
) (Jointly Administered)  
)  
Debtors. )

Deadline for objection to bidding procedures: November 8, 2002 at 4:00 p.m. E.T.  
(Hearing only if objections are filed)

Deadline for objection to sale: November 18, 2002 at 4:00 p.m. E.T.  
Sale Hearing \_\_\_\_\_ E.T.

Deadline for bids for auction: (three days prior to sale hearing) at 5:00 p.m. E.T.  
Auction: (one day prior to sale hearing) at 11:00 a.m. E.T.

**MOTION AND ORDER TO SHORTEN TIME AND TO LIMIT NOTICE**

\_\_\_\_\_ Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (the "Debtors") by and through their undersigned counsel, hereby move this Court for an order approving the form of notice (the "Notice") and shortening the time to object or respond to a portion of the attached Motion For Orders Under 11 U.S.C. 363 And 1146(C) And Fed. R. Bankr. P. 6004 And 6006: (I) Scheduling Hearing On Approval Of Bidding Procedures, Break-Up Fee And Expense Reimbursement; (II) (A) Approving Bidding Procedures And Break-Up Fee And Expense Reimbursement In Connection With The Proposed Sale Of The Shares, (B) Scheduling A Hearing Date, Auction Date And Bidding Deadline In Connection With The Sale Of Such Shares, And (C) Approving Form And Manner Of Notice Thereof; And (III) (A) Approving The Stock Purchase Agreement With Hancock Park Associates And Fansteel Inc., (B) Approving The Sale Of The Shares; (C) Determining That Such Sale Is Exempt From Stamp, Transfer, Recording Or Similar

<sup>1</sup>The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

Wmssol

Add: Rids Ogc Mail Center

Taxes; And (D) Approving Assumption And Assignment Of Lease Addendum (the "Motion").

As stated in the Motion, the Debtors, through their investment banker Lincoln Partners LLC, have sought to sell the capital stock of Fansteel Schulz Products, Inc. (the "Company") and have actively marketed the Company since January 15, 2002 (the "Petition Date"). After an exhaustive search of potential purchasers, the Debtors have determined that the offer from Hancock Park Associates (the "Proposed Purchaser") is the highest and best offer for the Shares. The Proposed Purchaser has entered into a Stock Purchase Agreement<sup>2</sup> that will further the goals of the Bidding Procedures by setting a floor for which all other Proposed Bids must exceed.

The Debtors seek an expedited schedule for the hearings contemplated in the Motion because the Proposed Purchaser, if it becomes the Successful Bidder, is unwilling to consummate the sale until the date that the Sale Order cannot be stayed, reserved, or ordered to be reconsidered. Bankruptcy Rule 8002(a) provides that a notice of appeal must be filed within 10 days of the entry of an order. However, under App. R. 4(a)(1)(A), a notice of appeal in a district court must be filed within 30 days after the entry of an order. In addition, the Proposed Purchaser is unwilling to keep its bid open for such an extended period of time because the value of the Shares may decline. Moreover, Fansteel does not wish to risk losing its stalking horse. According, Fansteel seeks an expedited schedule.

Given the nature of the relief requested in the Motion, the Debtors respectfully submit that the expedited schedule and Notice is sufficient to provide parties in interest an opportunity to review and, if necessary, respond to the Motion. Under the circumstances, the

---

<sup>2</sup> All terms not defined herein shall have the meanings ascribed to them in the Stock Purchase Agreement or the Motion.

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
	)	
FANSTEEL INC., <u>et al.</u> , <sup>1</sup>	)	Case No. 02-10109 (JJF)
	)	(Jointly Administered)
	)	
Debtors.	)	

Deadline for objection to bidding procedures: November 8, 2002 at 4:00 p.m. E.T.  
(Hearing only if objections are filed)

Deadline for objection to sale: November 18, 2002 at 4:00 p.m. E.T.  
Sale Hearing \_\_\_\_\_ E.T.

Deadline for bids for auction: (three days prior to sale hearing) at 5:00 p.m. E.T.  
Auction: (one day prior to sale hearing) at 11:00 a.m. E.T.

**MOTION AND ORDER TO SHORTEN TIME AND TO LIMIT NOTICE**

Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (the "Debtors") by and through their undersigned counsel, hereby move this Court for an order approving the form of notice (the "Notice") and shortening the time to object or respond to a portion of the attached Motion For Orders Under 11 U.S.C. 363 And 1146(C) And Fed. R. Bankr. P. 6004 And 6006: (I) Scheduling Hearing On Approval Of Bidding Procedures, Break-Up Fee And Expense Reimbursement; (II) (A) Approving Bidding Procedures And Break-Up Fee And Expense Reimbursement In Connection With The Proposed Sale Of The Shares, (B) Scheduling A Hearing Date, Auction Date And Bidding Deadline In Connection With The Sale Of Such Shares, And (C) Approving Form And Manner Of Notice Thereof; And (III) (A) Approving The Stock Purchase Agreement With Hancock Park Associates And Fansteel Inc., (B) Approving The Sale Of The Shares; (C) Determining That Such Sale Is Exempt From Stamp, Transfer, Recording Or Similar

---

<sup>1</sup>The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

Taxes; And (D) Approving Assumption And Assignment Of Lease Addendum (the "Motion").

As stated in the Motion, the Debtors, through their investment banker Lincoln Partners LLC, have sought to sell the capital stock of Fansteel Schulz Products, Inc. (the "Company") and have actively marketed the Company since January 15, 2002 (the "Petition Date"). After an exhaustive search of potential purchasers, the Debtors have determined that the offer from Hancock Park Associates (the "Proposed Purchaser") is the highest and best offer for the Shares. The Proposed Purchaser has entered into a Stock Purchase Agreement<sup>2</sup> that will further the goals of the Bidding Procedures by setting a floor for which all other Proposed Bids must exceed.

The Debtors seek an expedited schedule for the hearings contemplated in the Motion because the Proposed Purchaser, if it becomes the Successful Bidder, is unwilling to consummate the sale until the date that the Sale Order cannot be stayed, reserved, or ordered to be reconsidered. Bankruptcy Rule 8002(a) provides that a notice of appeal must be filed within 10 days of the entry of an order. However, under App. R. 4(a)(1)(A), a notice of appeal in a district court must be filed within 30 days after the entry of an order. In addition, the Proposed Purchaser is unwilling to keep its bid open for such an extended period of time because the value of the Shares may decline. Moreover, Fansteel does not wish to risk losing its stalking horse. Accordingly, Fansteel seeks an expedited schedule.

Given the nature of the relief requested in the Motion, the Debtors respectfully submit that the expedited schedule and Notice is sufficient to provide parties in interest an opportunity to review and, if necessary, respond to the Motion. Under the circumstances, the

---

<sup>2</sup> All terms not defined herein shall have the meanings ascribed to them in the Stock Purchase Agreement or the Motion

Debtors submit that shortening the time for notice on the Motion will not prejudice the rights of any party in interest.

The Motion will be served upon the following: (i) Hancock Park Associates, 10323 Santa Monica Blvd., Ste. 101, Los Angeles, CA 90025-5056, Attn: Michael J. Fourticq, Sr.; (ii) Paul, Hastings, Janofsky & Walker LLP, 25<sup>th</sup> Floor, 515 S. Flower Street, Los Angeles, CA 90071-2228, Attn: Robert A. Miller, Esq., attorney for the Proposed Purchaser; (iii) the Office of the United States Trustee; (iv) counsel to the Official Committee of Unsecured Creditors; (v) all appropriate federal, state and local taxing authorities, (v) all parties who have made written expressions of interests in acquiring the Shares; and (vii) all parties having filed a notice of appearance in the Debtors' chapter 11 cases, which service shall constitute good and sufficient notice of this order and the hearing on the Bidding Procedures, Break-up Fee And Expense Reimbursement. The Debtors submit that no other notice is necessary under the circumstances. All parties will be notified by either overnight mail or hand delivery.

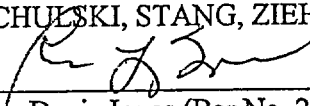
WHEREFORE, the Debtors respectfully request the entry of an order approving the form and manner of notice and providing that notice of the attached Motion shall be shortened as stated above.

Dated: October 29, 2002

SCHULTE ROTH & ZABEL LLP  
Jeffrey S. Sabin (JSS-7600)  
Michael R. Mitchell (MRM-9279)  
919 Third Avenue  
New York, NY 10022  
Telephone: (212) 756-2000  
Facsimile: (212) 593-5955

and

PACHULSKI, STANG, ZIEHL, YOUNG & JONES P.C.



---

Laura Davis Jones (Bar No. 2436)  
Hamid Rafatjoo (CA Bar No. 181564)  
Rosalie L. Spelman (Bar No. 4153)  
919 North Market Street, 16<sup>th</sup> Floor, P.O. Box 8705  
Wilmington, DE 19899-8705 (Courier 19801)  
Telephone: (302) 652-4100  
Facsimile: (302) 652-4400

Co-Counsel for the Debtors and  
the Debtors-in-Possession

---

So Ordered  
The Honorable Joseph J. Farnan, Jr.  
United States District Court Judge

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
	)	
FANSTEEL INC., <u>et al.</u> , <sup>1</sup>	)	Case No. 02-10109 (JJF)
	)	(Jointly Administered)
	)	
Debtors.	)	

Deadline for objection to bidding procedures: November 8, 2002 at 4:00 p.m. E.T.  
(Hearing only if objections are filed)  
Deadline for objection to sale: November 18, 2002 at 4:00 p.m. E.T.  
Sale Hearing \_\_\_\_\_ E.T.  
Deadline for bids for auction: (three days prior to sale hearing) at 5:00 p.m. E.T.  
Auction: (one day prior to sale hearing) at 11:00 a.m. E.T.

**NOTICE OF MOTION**

Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (the "Debtors") have filed a Motion For Orders Under 11 U.S.C. 363 And 1146(C) And Fed. R. Bankr. P. 6004 And 6006: (I) Scheduling Hearing On Approval Of Bidding Procedures, Break-Up Fee And Expense Reimbursement, (II) (A) Approving Bidding Procedures And Break-Up Fee And Expense Reimbursement In Connection With The Proposed Sale Of The Shares, (B) Scheduling A Hearing Date, Auction Date And Bidding Deadline In Connection With The Sale Of Such Shares, And (C) Approving Form And Manner Of Notice Thereof; And (III) (A) Approving The Stock Purchase Agreement With Hancock Park Associates And Fansteel Inc., (B) Approving The Sale Of The Shares; (C) Determining That Such Sale Is Exempt From Stamp, Transfer, Recording Or Similar Taxes; And (D) Approving Assumption And Assignment Of Lease Addendum (the "Motion").

---

<sup>1</sup>The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp , Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co , Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

Objections or responses to that part of the Motion seeking a hearing for the approval of the Bidding Procedures and Break-up Fee and Expense Reimbursement, if any, must be filed on or before November 8, 2002 at 4:00 p.m. (EST) (the "Objection Deadline") with the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801, with a copy of the served upon (i) Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attn: Jeffrey S. Sabin, Esq., attorney for the Debtors, (ii) Paul, Hastings, Janofsky & Walker LLP, 25<sup>th</sup> Floor, 515 S. Flower Street, Los Angeles, CA 90071-2228, Attn: Robert A. Miller, Esq., attorney for the Proposed Purchaser; (iii) the Office of the United States Trustee, 844 King Street, Ste. 2313, Wilmington, DE 19801, Attn: David Buchbinder, Esq.; and (iv) Freeborn & Peters, 311 South Wacker Drive, Ste. 3000, Chicago Ill. 60606-6677, Attn: Frances Gecker, Esq., counsel for the creditors' committee, so that such objections are actually received by such persons no later than November 8, 2002 at 4:00 p.m. (EST).

A HEARING WILL BE HELD ONLY IF OBJECTIONS ARE TIMELY FILED AND RECEIVED. THE HEARING WILL BE SCHEDULED AT A DATE AND TIME AT THE CONVENIENCE OF THE COURT.



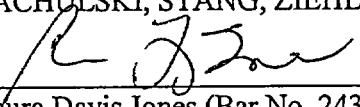
IF YOU FAIL TO RESPOND IN ACCORDANCE WITH THIS NOTICE, THE  
COURT MAY GRANT THE RELIEF REQUESTED BY THE MOTION WITHOUT  
FURTHER NOTICE.

Dated: October 29, 2002

SCHULTE ROTH & ZABEL LLP  
Jeffrey S. Sabin (JSS-7600)  
Michael R. Mitchell (MRM-9279)  
919 Third Avenue  
New York, NY 10022  
Telephone: (212) 756-2000  
Facsimile: (212) 593-5955

and

PACHULSKI, STANG, ZIEHL, YOUNG & JONES P.C.



---

Laura Davis Jones (Bar No. 2436)  
Hamid Rafatjoo (CA Bar No. 181564)  
Rosalie L. Spelman (Bar No. 4153)  
919 North Market Street, 16<sup>th</sup> Floor, P.O. Box 8705  
Wilmington, DE 19899-8705 (Courier 19801)  
Telephone: (302) 652-4100  
Facsimile: (302) 652-4400

Co-Counsel for the Debtors and  
the Debtors-in-Possession

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re: ) Chapter 11)  
)  
FANSTEEL INC., et al.,<sup>1</sup> ) Case No. 02-10109 (JJF)  
) (Jointly Administered)  
)  
Debtors. )

Deadline for objection to bidding procedures: November 8, 2002 at 4:00 p.m. E.T.  
(Hearing only if objections are filed)  
Deadline for objection to sale: November 18, 2002 at 4:00 p.m. E.T.  
Sale Hearing \_\_\_\_\_ E.T.  
Deadline for bids for auction: (three days prior to sale hearing) at 5:00 p.m. E.T.  
Auction: (one day prior to sale hearing) at 11:00 a.m. E.T.

**MOTION FOR ORDERS UNDER 11 U.S.C. 363 AND 1146(c) AND FED. R. BANKR. P. 6004 AND 6006: (I) SCHEDULING HEARING ON APPROVAL OF BIDDING PROCEDURES, AND BREAK-UP FEE AND EXPENSE REIMBURSEMENT; (II) (A) APPROVING BIDDING PROCEDURES AND BREAK-UP FEE AND EXPENSE REIMBURSEMENT IN CONNECTION WITH THE PROPOSED SALE OF THE SHARES, (B) SCHEDULING A HEARING DATE, AUCTION DATE AND BIDDING DEADLINE IN CONNECTION WITH THE SALE OF SUCH SHARES, AND (C) APPROVING FORM AND MANNER OF NOTICE THEREOF; AND (III) (A) APPROVING THE STOCK PURCHASE AGREEMENT BETWEEN HANCOCK PARK ASSOCIATES AND FANSTEEL INC., (B) APPROVING THE SALE OF THE SHARES; (C) DETERMINING THAT SUCH SALE IS EXEMPT FROM STAMP, TRANSFER, RECORDING OR SIMILAR TAXES; AND (D) APPROVING ASSUMPTION AND ASSIGNMENT OF LEASE ADDENDUM**

Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (collectively, the "Debtors"), move ("Motion") for: (I) an order scheduling a hearing date to approve the bidding procedures, break-up fee and expense reimbursement ("Scheduling Order")<sup>2</sup> (II) an order under 11 U.S.C. §§ 105 and 363 and Fed. R. Bankr. P. 6004(f): (A) approving bidding procedures (the "Bidding Procedures Order") and a break-up fee and expense

<sup>1</sup>The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

<sup>2</sup> A copy of the proposed Scheduling Order is attached as Exhibit A. The Debtors respectfully request that the Scheduling Order be entered only if objections are timely filed and served.

reimbursement in connection with the proposed sale by Fansteel Inc. ("Fansteel") to Hancock Park Associates (the "Proposed Purchaser") of all of the issued and outstanding Shares<sup>3</sup> of capital stock of Fansteel Schulz Products, Inc. ("the "Company"), (B) scheduling a hearing date, auction date, and bidding deadlines and procedures in connection with the sale of the Shares, and (C) and approving the form and manner of notice thereof (collectively, "Part I of the Motion"); and (III) an order (the "Sale Order"<sup>4</sup>) under 11 U.S.C. §§ 105, 363, 365 and 1146(c) and Fed. R. Bankr. P. 2002(a)(2) and (c)(1), 6004 and 6006, (A) approving the Stock Purchase Agreement, dated as of October 25, 2002 (the "Stock Purchase Agreement")<sup>5</sup> between Fansteel and the Proposed Purchaser or a modification thereof, if another party is the Successful Bidder (as defined below), (B) approving the sale of the Shares to the Proposed Purchaser or such other party making a higher and better offer therefore, (C) determining that such sale is exempt from any stamp, transfer, recording or similar taxes, and (D) approving the assumption and assignment of a certain lease of real property occupied by the Company in San Gabriel, California (collectively, "Part II of the Motion"). In support of this Motion, the Debtors respectfully represent as follows:

### **JURISDICTION**

1. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). The statutory predicates for relief are 11 U.S.C. §§ 105, 365, 363 and 1146(c) and Fed. R. Bankr. P. 6004 and 6006.

---

<sup>3</sup> Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Stock Purchase Agreement.

<sup>4</sup> A copy of the proposed Sale Order is attached as Exhibit C.

<sup>5</sup> A copy of the Stock Purchase Agreement (together with all schedules and exhibits thereto) is attached as Exhibit D.

## **BACKGROUND**

### **A. The Bankruptcy Filing**

2. On January 15, 2002 (the "Petition Date"), the Debtors filed voluntary petitions for relief under 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code"). The Court has entered an order pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), directing that the Debtors' separate chapter 11 cases (the "Cases") be procedurally consolidated and jointly administered by this Court.

3. The Debtors continue to manage their respective properties and operate their respective businesses as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

4. On January 29, 2002, the Office of the United States Trustee for the District of Delaware appointed an official committee of unsecured creditors (the "Committee") for the Cases. No trustee or examiner has been appointed in any of the Cases.

### **B. The Debtors' Business Operations**

5. Fansteel and the other eight Debtors (each a direct or indirect wholly-owned subsidiary of Fansteel) have been engaged for over 70 years in the business of manufacturing and marketing specialty metal products, with today's operations being conducted at ten manufacturing facilities (five of which are owned by Fansteel) in nine states. Collectively, the Debtors have approximately 1,140 employees, substantially all on a full time basis, including approximately 427 employees that are working under collective bargaining agreements with four different unions. Each Debtor is operated separately, with separate employees, separate operations and separately maintained books and records.

**C. Events Leading to the Bankruptcy Filings**

6. The operations of the Debtors' respective businesses have involved compliance with state and federal environmental laws, including the Atomic Energy Act. The Cases are an outgrowth of the discontinuation of one of Fansteel's operations that was conducted from the 1950s through 1989 at a site owned and operated by Fansteel in Muskogee, Oklahoma (the "Muskogee Site"). At the Muskogee Site, Fansteel, in accordance with a license obtained from the NRC in 1967, processed tantalum ore for further processing at Fansteel's plant in North Chicago. Tantalum naturally occurs with other metals, including uranium and thorium, each of which is radioactive, and the processing of tantalum results in, among other things, radioactive residues and soils.

7. In 1989, Fansteel discontinued its operations at the Muskogee Site. The NRC requires, after a licensee ceases principal operations, that the licensee obtain approval of a decommissioning plan ("DP") and a decommissioning funding plan ("DFP"). The DP is intended to set forth the method by which the licensee entity is to remediate its site and dispose of its radioactive material, and a DFP is intended to specify how the licensed entity is to fund the costs and expenses of decommissioning.

8. Fansteel's original proposed DP, among other things, contemplated construction of a processing plant to reprocess and remediate the radioactive residues over at least a ten year period and the construction of an on-site containment cell to remediate the remaining contaminated soils. The reprocessing plant operations were projected to at least recover the cost of construction and cost for operations as a result of the anticipated revenue to be derived from the sale of the valuable metals to be recovered from the reprocessing of the residues.

9. Fansteel's proposed DP (the reprocessing plant) was approved as an amendment to Fansteel's NRC license in 1997. NRC regulations require licensees to post financial assurance

for all remediation and decommissioning costs and to update these proposed costs on a periodic basis. In 1997, the NRC required Fansteel to update its cost estimates at intervals not to exceed thirteen months.

10. Unfortunately, the construction and start up of the DP's reprocessing plant was plagued with numerous technical and operational difficulties significantly reducing the estimated processing capacity of the facility. Additionally, with the significant decline in the price of tantalum during the second and third quarters of 2001, operation of the reprocessing facility was determined to be uneconomical, requiring Fansteel, as a matter of generally accepted accounting principals ("GAAP") in its financial statements for the quarter ended September 30, 2001, to write off the costs that Fansteel had expended in designing and building the reprocessing plant (approximately \$32 million), and to take an immediate reserve for the reasonably anticipated costs of remediating (by off-site disposal) the radioactive residues and soils that remain on the Muskogee Site without regard to any reprocessing, an approximately \$57 million reserve. (Given that the reserve already included amounts previously recorded on Fansteel's books, the effect of the GAAP rules was to require Fansteel to take total charge of \$84 million.)

11. In mid October 2001, Fansteel promptly informed its Pre-Petition lenders, Northern Trust Company ("NTC") and M&I Bank ("M&I"), of the prospective write-off and reserve required with respect to the Muskogee Site, and requested waivers of any events of default arising under the pertinent loan documents as a result thereof, as well as an amendment of the loan documents in order either (a) to allow Fansteel sufficient additional credit availability with NTC and M&I, or (b) to allow Fansteel's subsidiaries to borrow funds on a secured basis which, in either case, would have provided the Debtors with sufficient liquidity to avoid a bankruptcy filing. However, NTC and M&I refused these requests and, on November 19, 2001, accelerated their Pre-Petition credit facility, froze all of the Debtors' accounts that were

maintained at NTC and M&I and set-off amounts owed under the NTC and M&I Pre-Petition credit facility against those accounts. As a result of the freeze and such set-off, the Debtors no longer had access to sufficient funds necessary to operate their respective businesses and a bankruptcy filing became inevitable.

**D. Post-Petition Financing**

12. The Debtors were forced to file for bankruptcy on January 15, 2002; yet, the Debtors were unable to obtain DIP financing until May 2002. The Proposed DIP financiers were concerned that the rights of the NRC would prime their rights.<sup>6</sup> Fansteel explored alleviating the concerns of the DIP financiers by obtaining the consent, satisfactory to lenders, of the NRC to the proposed DIP financing, but it appeared unlikely that such a consent could be obtained. Even if such consent were forthcoming, under the Hobbs Act, 28 U.S.C. §2342, third parties arguably would have a period of time within which to challenge the consent of the NRC. As a result, the lenders were unwilling to provide Fansteel with DIP financing until the NRC provided its consent and the challenge period under the Hobbs Act expired. Such a delay was untenable for the Debtors.

13. Thus, prior to filing for bankruptcy, the Debtors developed a plan for two-stage financing: first, financing would be provided through a short-term loan and second, the short-term loan would be followed by a sale of accounts receivable. The plan's chief drawback was that, ultimately, it did not realistically give the Debtors additional funds with which to operate, it merely speeded up access to funds through the purchase by another entity of the Debtors' accounts receivable.

14. Faced with the uncertainty of adequate financing, in order to provide additional funds to meet the Debtors' working capital needs and the costs of these Cases, Fansteel

---

<sup>6</sup> For example, such concerns specifically were expressed by Foothill Capital Corporation and The CIT Group/Business Credit, Inc., which refused to lend without the affirmative consent of the NRC.

(a) continued to seek DIP financing, and (b) immediately undertook efforts to sell assets or stock both on its own and with the help of Lincoln Partners LLP ("Lincoln Partners"), its investment banking firm.

15. The lack of DIP financing took a toll on the Debtors that cannot be over-emphasized. The Debtors have historically operated with thin staffing and their difficulty in obtaining DIP financing meant that the Debtors' management personnel spent valuable time and resources pursuing financing for approximately six months, beginning when the need to file for chapter 11 protection first became a possibility in November 2001. Performance of other necessary work was re-prioritized in order to provide support in pursuit of Proposed DIP financing.

16. Once DIP financing from Congress Financial Corp. was obtained in May 2002 [Docket No. 226], the Debtors began work on a business plan, with the assistance of its financial advisor, Executive Sounding Board Associates, Inc.

17. As a result of the decision by Fansteel to suspend operations of its Muskogee reprocessing plant and the resulting revised projected estimates of decommissioning costs, Fansteel, among other things, had to now formulate a revised strategy to satisfy its obligations, under the Atomic Energy Act and the Bankruptcy Code, to decommission the residues and soils from its prior operations.

18. Given the likelihood that the price of tantalum will remain, for the foreseeable future, far below that needed to justify "restarting" the reprocessing plant, Fansteel must now engage in a lengthy process that will require, among other things, (a) the formulation and submission to the NRC of a proposed amended DP (likely to take until approximately January), (b) the formulation and submission to the NRC, of a proposed DFP (likely to be contained in a proposed Plan of Reorganization), assuming that the NRC approves the amended DP,



(c) substantial engineering work to gather data to support Fansteel's proposed DP, and (d) the preparation and implementation of the Debtors' revised business plans, including the possibility of one or more stock or asset sales, and the proposed effect thereof on the ability of Fansteel, as a debtor and/or as reorganized to provide a DFP that will be acceptable to the NRC.

19. In these Cases, the Debtors are faced with both environmental and operational issues. The Debtors have been working with their environmental consultants, Earth Sciences Consultants, Inc., to create a new DP. The Debtors continuously have striven to solve problems faced at their other environmentally-problematic sites.

20. In addition, the Debtors and their financial advisors currently are completing the first of two phases in a business plan; that is, review of the qualitative analysis of the business of the operational side of the business, examining strengths, weaknesses, opportunities and threats; examining trends in business, developing business strategies and objectives, and developing a marketing plan.

21. The Debtors also have embarked on the second phase of the business plan – a multi-year extended budget reflecting specific strategies and tactics to be employed in a successful reorganization. From this multi-year budget, the derivative cash flow necessary to fund a plan will become apparent. The Debtors anticipate completing the multi-year business plan for the operational side of the Debtors' business by late November 2002.

22. The Debtors continue to stabilize their businesses. Part of their Lexington operation was suspended in order to cut losses. The remaining Lexington operation continues to supply their Plantsville site with blanks used in Plantsville's specialty metal parts operation.

23. Since the Petition Date, the Debtors, among other things, have attained faster collection on receivables, improved certain operations, and fostered relationships through their critical vendors programs.

24. The Debtors, with the help of Lincoln Partners, have actively continued to market certain of their assets or operations, including Fansteel's interest in the Company.

**E. The Proposed Sale of the Company**

25. On January 15, 2002, the Debtors retained Lincoln Partners in connection with the proposed sale of one or more of the Debtors' divisions, including Fansteel's interest in the Company.

26. Lincoln Partners' services include (a) identifying prospective purchasers who might be interested in entering into a transaction with the Debtors for specific divisions; (b) compiling a compendium of data that provides information on the specific division's operations, management, results of operations and financial conditions and that incorporates current financial data and other information deemed relevant by the Debtors; (c) formulating and recommending a strategy for the sale of specific divisions; (d) contacting and eliciting interest from prospective purchasers; (e) reviewing and evaluating prospective purchasers; (f) reviewing and analyzing all proposals received from prospective purchasers; and (g) negotiating with prospective purchasers to the extent requested by the Debtors.

27. After receiving expressions of interest from several parties, Lincoln Partners and the Debtors then negotiated and entered into confidentiality agreements with those parties to provide the appropriate due diligence materials. Once those agreements were executed, Lincoln Partners coordinated the Debtors' preparation and presentation of confidential due diligence materials. More generally, Lincoln Partners facilitated the flow of information between the parties to promote a possible agreement.

28. From January through September 2002, Lincoln Partners and the Debtors met with various proposed acquirers and their investment bankers, resulting in several offers, with

several parties providing non-binding term sheets. Of these offers, the board of directors determined that the offer presented by the Proposed Purchaser was the highest and best offer.

29. As a result, the Proposed Purchaser entered into a Stock Purchase Agreement with Fansteel to sell all of the issued and outstanding Shares of capital stock of the Company in exchange for approximately \$2.35 million in cash, subject to certain adjustments, and subject to higher and better offers. Closing on the sale is subject to certain conditions precedent contained in the Stock Purchase Agreement.

**F. Use of Sale Proceeds**

30. The Debtors have not incurred, nor do they anticipate incurring, any post-petition debt under the DIP loan agreement (the "DIP Agreement") during this sale process. However, the Debtors are required to apply the proceeds from this Sale (the "Sale Proceeds") as set forth in the "Final Order Authorizing Debtors To Incur Post-Petition Debt, Grant Liens And Provide Other Security And Other Relief To Congress Financial Corporation (Central)" entered May 21, 2002 by this Court (the "DIP Order").

31. Section 1(b) (viii) of the DIP Order provides in relevant part:

Sale of Assets. Notwithstanding anything to the contrary in Section 9.7 of the Loan Agreement, the Debtors may seek to sell substantially all of the assets or all of the outstanding and issued capital stock of any Borrower or operating unit of any Borrower upon motion under Code §363. The Debtors shall apply the proceeds of any such sale to the outstanding amounts under the Loan Agreement, and the Debtors shall deposit into an escrow account any amounts in excess of the outstanding amounts under the Loan Agreement, pending further order of this Court or agreement of the Committee with respect to the use of such amounts.

32. Further, section 4(b) of the Dip Order provides that Congress Financial Corporation (Central) ("Congress") must consent to any order that authorizes the Debtors' use of cash collateral, such as the Sale Proceeds.

33. By Second Amendment To Loan And Security Agreement (the "Amendment") attached hereto as Exhibit E, Congress and the Debtors have agreed that, upon Closing, all Sale

Proceeds will be deposited in an account controlled by the Congress. As long as the Debtors are not in Default under the DIP Agreement, the Debtors may use the Sale Proceeds as provided in the Amendment. The Debtors and the Committee have agreed that the Sale Proceeds may be used to pay any of the following: (i) any court approved professional fees pursuant to Order Under 11 U.S.C. §§ 105(a) And 331 Establishing Procedures For Interim Compensation And Reimbursement Of Expenses For Professionals And Committee Members entered February 20, 2002 and Order Authorizing Debtors To Employ And Compensate Certain Professionals Utilized In The Ordinary Course Of Business entered February 21, 2002; (ii) claims of critical vendors pursuant to that Stipulated And Agreed Order Modifying Order Authorizing Payment of Pre-Petition Critical Vendors Claims And Establishing Procedures For Future Arrangements entered March 14, 2002; (iii) allowed administrative expenses under 11 U.S.C. § 503(b) as the Debtors and the Committee may agree from time to time; and (iv) for all costs and expenses incurred in connection with the sale of Shares, including but not limited to, publication, mailing and copying costs.

34. The Bid Procedures contemplate that all Good Faith Deposits shall be deposited into an escrow account(s). However, under the DIP Agreement, Congress' cash collateral includes "Deposits". In order to promote competitive bidding, the Debtors realized that Qualified Bidders (including the Proposed Purchaser) would be unwilling to have their respective escrow deposits subject to the blanket lien of Congress. If the Debtors were to Default under the terms of the DIP Agreement, those escrow accounts would become property of Congress. Consequently, Congress and the Debtors, through the Amendment, have agreed that the term "Deposits" shall not include a Good Faith Deposit, as that term is defined in the Stock Purchase Agreement. The Amendment also provides that National City Bank, MI., IL. ("National City") may act under the Escrow Agreement (defined below) without violating the

Lock Box and Blocked Account Agreement dated as of May 2, 2002 among National City, Congress and the Debtors.

35. It is anticipated that by or before December 31, 2002, the Debtors will not be in compliance with their current EBITDA covenants under the DIP Agreement. In an effort to ensure that the Sale Proceeds will be available for their intended uses, the Debtors and Congress, are in the process of resetting EBITDA covenants so as to avoid possible Default. In the interim, within two weeks of the filing of this Motion, the Debtors expect to receive a waiver from Congress that will waive the EBITDA covenants until December 31, 2002. Under section 7.03(d) of the Stock Purchase Agreement, the waiver is a condition precedent to closing. The waiver will prevent a Default (as that term is defined in the DIP Agreement) and allow the Debtors to use the Sale Proceeds as contemplated herein.

**G. Escrow Agreement**

36. Fansteel, the Proposed Purchaser and National City have entered into an escrow agreement dated October 24, 2002 (the "Escrow Agreement") wherein the Proposed Purchaser deposited its Good Faith Deposit in accordance with the terms of the Stock Purchase Agreement. A copy of the Escrow Agreement is attached hereto as Exhibit F. Pursuant to the Bidding Procedures, other Qualified Bidders are required to enter into an escrow agreement substantially in the form of the Escrow Agreement.

**H. Schulz Lease**

37. The Company is party to a lease with Marilyn Lenore Schulz, Doris Schulz and the Schulz Family Trust dated September 30, 1997 for a property located at 855 East Commercial Avenue, San Gabriel, CA (the "Lease"). By this Motion, the Company seeks court approval of the Second Addendum to the Lease, to (i) extend the expiration date of the Lease to September 30, 2004 and (ii) provide for early termination of the Lease upon 90 days written

notice to the lessor, and to assume and assign the Lease, as amended, pursuant to section 365 of the Bankruptcy Code. The assumption and assignment of the Lease and Addendum is a condition precedent to closing under section 7.03(h) of the Stock Purchase Agreement. For a full description of the terms and conditions of the Addendum, see Exhibit G attached hereto.

**I. PBGC Reporting Requirement**

38. The Pension Benefit Guaranty Corporation ("PBGC") is a wholly-owned United States government corporation that administers the pension plan termination insurance program under Title IV of the Employee Retirement Income Security Act of 1974, *as amended*, 29 U.S.C. §§ 1301-1461 ("ERISA"). Pension plans are covered by Title IV of ERISA. PBGC has filed a consolidated contingent proof of claim<sup>7</sup> in connection with its contingent claims that could arise if any of the Debtors' three defined benefit pension plans ("Pension Plans") were to be terminated. Each of the Debtors either sponsors one or more of the Pension Plans or is a member of the such sponsor's controlled group.

39. Upon closing of the Sale, the Company will cease to be part of Fansteel's control group, which may constitute a reportable event under section 4043(c)(9) of ERISA but will not result in a termination. However, under PBGC Reg. § 4043.29(c)(1), notice of the reportable event is waived if the entity leaving the control group represents a de minimis part of that control group.

40. As further described on Exhibit H attached hereto, the Company meets the waiver requirements based upon the Company's revenue, annual operating income and its net tangible assets.

---

<sup>7</sup> The PBGC proof of claim is contingent upon termination of any of the Debtors' Pension Plans. The Debtors are jointly and severally liable under the claim

### RELIEF REQUESTED

41. By Part I of the Motion, Fansteel seeks entry of (i) an order, if objections are timely filed and served, substantially in the form attached as Exhibit A, scheduling a hearing on approval of the bidding procedures, and break-up fee and expense reimbursement, and (ii) an order, substantially in the form attached as Exhibit B, approving the bidding procedures and a break-up fee and expense reimbursement in connection with the proposed sale of the Shares (the "Sale"), scheduling a hearing on the Sale ("Final Sale Hearing") and approving the form and manner of notice thereof.

42. By Part II of the Motion, Fansteel seeks entry of an order substantially in the form attached as Exhibit C (i) approving the Stock Purchase Agreement or a modification thereof, if another party is the Successful Bidder at the Auction, (ii) approving the sale of the Shares to the Proposed Purchaser or such other party making a higher and better offer therefor, (iii) determining that such sale is exempt from any stamp, transfer, recording or similar tax, and (iv) approving the assumption and assignment of certain lease of real property occupied by the Company in San Gabriel, California (collectively, "Part II of the Motion").

### THE STOCK PURCHASE AGREEMENT

43. The sale process described above resulted in Fansteel entering into the Stock Purchase Agreement with the Proposed Purchaser that, among other things, provides for the sale of the Shares. Fansteel has determined, in the exercise of its sound business judgment, that entering into the Stock Purchase Agreement is in the best interests of the Debtors, their estates and their creditors.

44. The material terms of the Stock Purchase Agreement include:<sup>8</sup>

---

<sup>8</sup> This summary is provided for convenience only and is qualified in its entirety by the Stock Purchase Agreement. The Stock Purchase Agreement should be reviewed in its entirety by an interested party and, to the extent that there is any discrepancy, the terms and conditions of the Stock Purchase Agreement shall control.

Purchase price:	In consideration for the Shares, as of the Closing Date, the Proposed Purchaser will pay to Fansteel an amount equal to \$2.35 million in cash.
Shares:	On the terms and subject to the conditions precedent set forth in the Stock Purchase Agreement, at the Closing, Fansteel, as beneficial owner, shall sell to the Proposed Purchaser all of the Shares, together with all rights attached to the Shares, free from all security interests or other rights or interests of third parties.
Sale Free and Clear:	The Shares are to be transferred free and clear of all liens, claims, encumbrances and interests pursuant to section 363(f) of the Bankruptcy Code. By this Motion, Fansteel requests that the Court authorize the sale and order that all valid and enforceable liens and security interests existing on the Shares as of the Closing Date, if any, shall be transferred and attached to the net proceeds that Fansteel receives from the sale.
Bidding Procedures and Break-Up Fee and Expense Reimbursement:	As a condition to the Proposed Purchaser's obligation to close under the Stock Purchase Agreement, the Proposed Purchaser has required that Fansteel apply for an order approving certain bidding procedures for the acceptance of competing bids, as set forth in the Stock Purchase Agreement, and requested that Fansteel be authorized to pay to the Proposed Purchaser a Break-Up Fee and Expense Reimbursement of \$70,500 in accordance with the Stock Purchase Agreement if the Proposed Purchaser is not the Successful Bidder at the Auction.
Timing:	An order approving the Sale must be obtained within 60 days of the effective date of this Stock Purchase Agreement, and the Sale must close within 90 days of the effective date of this Stock Purchase Agreement.

### **BIDDING PROCEDURES**

45. The Proposed Purchaser has expended, and likely will continue to expend, considerable time, money and energy pursuing the purchase of the Shares and has engaged in extended arm's-length and good faith negotiations. In recognition of this expenditure of time, energy and resources, and the benefits of securing a stalking horse or minimum bid, Fansteel has agreed to seek an order of this Court approving the Bidding Procedures defined below.

46. The Bidding Procedures were a material inducement for, and a condition of, the Proposed Purchaser's entry into the Stock Purchase Agreement. The Debtors believe that the



Bidding Procedures are fair and reasonable in view of (a) the intensive analysis, due diligence investigation, and negotiation undertaken by the Proposed Purchaser in connection with the Sale, (b) the extensive resources and expenditure to be undertaken by the Proposed Purchaser in moving toward consummation of the Sale and (c) the fact that the Proposed Purchaser's efforts have served as a catalyst for other proposed bidders and have increased the chances that the Debtors will receive the highest and best offer for the Shares, to the benefit of the Debtors, their estates, their creditors and all other parties-in-interest.

47. The Proposed Purchaser is unwilling to commit to hold open its offer to purchase the Shares under the terms of the Stock Purchase Agreement unless the Bidding Procedures Order authorizes payment of the Break-Up Fee and Expense Reimbursement. Absent entry of the Bidding Procedures Order and approval of the Bidding Procedures, the Debtors may lose the opportunity to obtain what they believe to be the highest and best available offer for the Shares. The Debtors thus request that the Court authorize payment of the Break-Up Fee and Expense Reimbursement pursuant to the terms and conditions of the Stock Purchase Agreement.

48. The Debtors believe that the Bidding Procedures are fair and reasonable, and combined with the Proposed Purchaser's offer to acquire the Shares, will work to maximize the value realized by the Debtors' estates.

49. Set forth below are the bidding procedures (the "Bidding Procedures") to be employed with respect to the Stock Purchase Agreement between the Proposed Purchaser and Fansteel (the "Seller") concerning the prospective sale (the "Sale") of the Shares. The Seller will seek entry of an order from the Court authorizing and approving the Sale to a Qualified Bidder (as defined below) which the Seller may determine to have made the highest or otherwise best offer (the "Successful Bidder"). The following overbid provisions and related bid protections are designed to reimburse the Proposed Purchaser for its efforts and Stock Purchase Agreements to

date and to facilitate a full and fair process designed to maximize the value of the Shares for the benefit of the Seller's creditors and stakeholders. These Bidding Procedures shall not be subject to material changes without approval of the Court.

#### Assets To Be Sold

50. The Seller is offering for sale all of the issued and outstanding Shares of capital stock of Fansteel Schulz Products, Inc., a Delaware corporation and wholly-owned subsidiary of the Seller (the "Company").

#### The Bidding Process

51. The Seller shall (i) determine whether any person is a Qualified Bidder (as defined below), (ii) coordinate the efforts of Qualified Bidders in conducting their due diligence investigations, (iii) receive offers from Qualified Bidders, and (iv) negotiate any offers made to purchase the Shares (collectively, the "Bidding Process"). Any person who wishes to participate in the Bidding Process must be a Qualified Bidder. Neither the Seller nor its representatives shall be obligated to furnish any information of any kind whatsoever to any person who is not determined to be a Qualified Bidder. Qualified Bidders shall be given all relevant information pertaining to the Sale. The Seller shall have the right to adopt such other rules for the Bidding Process, which rules will better promote the goals of the Bidding Process and that are not inconsistent with any of the other provisions hereof or of any Court order.

#### Participation Requirements

52. Unless otherwise ordered by the Court for cause shown or as otherwise determined by the Seller, in order to participate in the Bidding Process each person (a "Proposed Bidder") must deliver (unless previously delivered) to the Seller:

- (i) An executed confidentiality agreement in form and substance satisfactory to the Seller; and
- (ii) Current audited financial statements of the Proposed Bidder, or, if the Proposed Bidder is an entity formed for the purpose of acquiring the

Shares, current audited financial statements of the equity holder(s) of the Proposed Bidder, or such other form of financial disclosure acceptable to the Seller and its advisors demonstrating such Proposed Bidder's ability to close a proposed transaction.

53. A "Qualified Bidder" is any Proposed Bidder or multiple Proposed Bidders participating in the Bidding process together that delivers the documents described in subparagraphs (i) and (ii), whose financial information demonstrates the financial capability of the Proposed Bidders, either jointly or separately, to consummate the Sale, and that the Seller determines is reasonably likely (based on availability of financing, experience and other considerations) to submit a bona fide offer and to be able to consummate the Sale if selected as the Successful Bidder.

54. Within two business days after a Proposed Bidder delivers all of the materials required by subparagraphs (i) and (ii) above, the Seller shall determine, and shall notify the Proposed Bidder, if such Proposed Bidder is a Qualified Bidder.

#### **Due Diligence**

55. The Seller may afford any Qualified Bidder the opportunity to conduct a due diligence review. The Seller will designate an employee or other representative to coordinate all reasonable requests for additional information and due diligence access from Qualified Bidders. The Seller shall not be obligated to furnish any due diligence information after the Bid Deadline (as hereinafter defined). Neither the Seller nor any of its representatives are obligated to furnish any information to any person. Bidders are advised to exercise their own discretion before relying on any information provided by anyone other than the Seller or its representatives.

#### **Bid Deadline**

56. A Qualified Bidder who desires to make a bid shall deliver a written copy of its bid to the Seller, c/o Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, NY 10022, Attn: Jeffrey Sabin, Esq., not later than 11:00 a.m. (EST) on the date which is three business

days prior to the date scheduled by the Court for the Sale Hearing (the "Bid Deadline"). The Seller will immediately distribute by facsimile transmission, personal delivery or reliable overnight courier service in accordance with the Stock Purchase Agreement, a copy of each bid upon receipt to counsel for the Proposed Purchaser. The Seller may, in its discretion, extend the Bid Deadline once or successively, but is not obligated to do so. The Seller shall announce the terms of the highest and best Qualified Bids received by the Bid Deadline.

#### Bid Requirements

57. For the purposes of determining the existence of a bid, a bid may be in the form of a joint bid from more than one Qualified Bidder, or may be in the form of separate bids from more than one Qualified Bidder, with each such separate bid being for a portion of the Shares, but all of such separate bids collectively aggregating a bid price having a value greater than or equal to the sum of (x) the value, as reasonably determined by the independent financial advisor of the Seller, of the Proposed Purchaser's offer plus (y) the amount of the Break-Up Fee and Expense Reimbursement (as defined below) plus (z) (A) in the case of the initial Qualified Bid, \$40,000, and (B) in the case of any subsequent Qualified Bids, \$40,000 plus the amount by which the preceding Qualified Bid exceeds the sum of (x) plus (y) above. All bids must include the following documents (the "Required Bid Documents"):

- A letter stating that one or more Qualified Bidders offer to purchase all or a portion of the Shares and that such offer is irrevocable until 2 business days after the Shares have been disposed of pursuant to these Bidding Procedures.
- A statement by each Qualified Bidder that it is prepared to enter into and consummate the Sale as soon as practicable but in no event more than thirty-one (31) days after entry by the Court of the 363 Order.
- An executed copy of the Stock Purchase Agreement, together with all Exhibits and Schedules thereto (the "Definitive Sale Documentation") marked and initialed to show those amendments and modifications to such agreement that the Qualified Bidder proposes, including, but not limited to, price and the time of closing.

- A good faith deposit (the "Good Faith Deposit") in the form of a certified check or other form acceptable to the Seller in its sole discretion payable to the order of the Seller (or such other party as the Seller may determine) in an amount equal to \$235,000. All Qualified Bidders shall enter into an escrow agreement as directed by the Seller.
- Written evidence of a commitment for financing or other evidence of ability to consummate the proposed transaction satisfactory to the Seller.
- A statement by each Qualified Bidder as to whether such bidder intends to assume any liabilities associated with any defined benefit plan sponsored by the Company.

58. The Seller will consider a bid only if the bid is on terms that are not conditioned on obtaining financing or on the outcome of unperformed due diligence by the bidder. A bid received from a Qualified Bidder that includes all of the Required Bid Documents and meets all of the above requirements is a "Qualified Bid."

59. If the Seller does not receive any Qualified Bids, the Seller will report the same to the Court and will proceed with a sale and assignment of the Shares to the Proposed Purchaser pursuant to the terms of the Stock Purchase Agreement. The Stock Purchase Agreement executed by the Proposed Purchaser shall constitute a Qualified Bid for all purposes.

#### Bid Protection

60. Recognizing the Proposed Purchaser's expenditure of time, energy and resources, the Seller has agreed to provide certain bidding protections to the Proposed Purchaser. Specifically, the Seller has determined that the Stock Purchase Agreement will further the goals of the Bidding Procedures by setting a floor for which all other Proposed Bids must exceed and, therefore, is entitled to be selected as a "Stalking Horse Bid." As a result, the Seller has agreed to pay, in certain limited circumstances, to the Proposed Purchaser a break-up fee equal to \$70,500, including without limitation, actual fees and expenses incurred by the Proposed Purchaser in pursuing the Sale (collectively, the "Break-Up Fee and Expense Reimbursement").

The payment of the Break-Up Fee and Expense Reimbursement shall be governed solely by the provisions of the Stock Purchase Agreement.

#### Auction

61. If the Seller receives a Qualified Bid, the Seller will conduct an auction (the "Auction") at the offices of Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, NY 10022, on the date that is one Business Day prior to the date scheduled by the Court for the Sale Hearing, beginning at 11:00 a.m. (EST) or such later time or other place as the Seller shall notify all Qualified Bidders who have submitted Qualified Bids. Only the Proposed Purchaser, the Seller, the Committee and any Qualified Bidders who have timely submitted Qualified Bids shall be entitled to attend the Auction, and only the Proposed Purchaser and Qualified Bidders will be entitled to make any subsequent Qualified Bids at the Auction. During the Auction, bidding shall begin initially with the highest Qualified Bid and continue in minimum increments of at least \$40,000 higher than the previous Qualified Bid. Bidding at the Auction will continue until such time as the highest and best Qualified Bid is determined. The Seller may announce at the Auction additional procedural rules that are reasonable under the circumstances (e.g., the amount of time allotted to make subsequent overbids) for conducting the Auction so long as such rules are not inconsistent with these Bidding Procedures.

62. Upon conclusion of the Auction, the Seller, in consultation with its financial and business advisors shall (i) review each Qualified Bid or bids on the basis of financial and contractual terms and the factors relevant to the sale process, including those factors affecting the speed and certainty of consummating the Sale, and (ii) identify the highest and otherwise best offer for the Shares (the "Successful Bid"), which highest and best offer will provide the largest amount of net value to the Seller after payment of, among other things, the Break-Up Fee and Expense Reimbursement, if necessary. The Seller may adopt rules for the bidding process at the

Auction that will better promote the goals of the bidding process and that are not inconsistent with any of the provisions of the Bankruptcy Code, any Court order or these Bidding Procedures.

#### Acceptance Of Qualified Bids

63. The Seller shall sell the Shares for the highest or otherwise best Qualified Bid received at the Auction upon the approval of such Qualified Bid by the Court after the hearing (the "Sale Hearing"). The Seller's presentation of a particular Qualified Bid to the Court for approval does not constitute the Seller's acceptance of the bid. The Seller will be deemed to have accepted a bid only when the bid has been approved by the Court at the Sale Hearing.

#### Sale Hearing

64. The Sellers request a hearing at the earliest convenience of the Court at the United States Bankruptcy Court for the District of Delaware, located in Wilmington, Delaware. Such hearing may be adjourned or rescheduled without further notice by an announcement of the adjourned date at the Sale Hearing.

65. Following the Sale Hearing approving the sale of the Shares to the Successful Bidder, if such Successful Bidder fails to consummate an approved sale because of a breach or failure to perform on the part of such Successful Bidder, the next highest or otherwise best Qualified Bid, as disclosed at the Sale Hearing, shall be deemed to be the Successful Bid and the Seller shall be authorized, but not required, to consummate the sale with the Qualified Bidder submitting such bid without further order of the Court.

#### Return Of Good Faith Deposit

66. Good Faith Deposits of all Qualified Bidders (except for the Successful Bidder) shall be held in an interest-bearing escrow account until two (2) days following the Auction. If a Successful Bidder fails to consummate an approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Seller will not have any obligation to return

the Good Faith Deposit deposited by such Successful Bidder.

### Modifications

67. The Seller may (a) determine, which Qualified Bid, if any, is the highest or otherwise best offer; and (b) reject at any time before entry of an order of the Court approving a Qualified Bid, any bid that is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code, the Bidding Procedures, or the terms and conditions of sale, or (iii) contrary to the best interests of the Seller, its estates and creditors. At or before the Sale Hearing, the Seller may impose such other terms and conditions as it may determine to be in the best interests of the Seller's estate, its creditors and other parties in interest.

### Applicable Authority

#### A. The Sale of the Shares Is Within The Debtors' Sound Business Judgment

68. Bankruptcy Code Section 363 provides that the debtor "after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363 (b)(1).

69. Courts have approved sales of debtors' assets outside the ordinary course of business. *See, e.g. In re Tempo Technology Corp.*, 202, B.R. 363 (Del. D. 1996) (debtor and purchaser consummated sale outside ordinary course of business in good faith; notice of auction was published in national addition of Wall Street Journal, purchaser was sole bidder, purchaser was not affiliated with debtor's management or board of directors, and sale price was reasonable).

70. The Debtors' sale or use of assets outside the ordinary course of business should be approved by the court if the Debtors can demonstrate a sound business justification for the proposed transaction. *See, e.g., Meyers v. Martin*, 91 F. 3d 389, 395 (3d Cir. 1996) (citing *Fulton State Bank v. Schipter (In re Schipter)*, 933 F.2d 513, 515 (7th Cir. 1991) ("under normal circumstances the Court would defer to the trustee's judgment so long as there is a legitimate



business justification"); *In re Montgomery Ward Holding Corp.*, 242 B.R. 147 (Bankr. D. Del. 1999) (held, in determining whether to authorize the use, sale or lease of estate property other than in the ordinary course of business, bankruptcy courts require the debtor to show that a sound business purpose justify such actions); *In re Delaware & Hudson Ry. Co.*, 124 B.R. 169 (D. Del. 1991) (approved sale under business purpose rule). See *In re Indus. Valley Refrigeration and Air Conditioning Supplies, Inc.*, 77 B.R. 15, 20 (Bankr. E.D. Pa. 1987) (adopted the sound business purpose rule). Here, the "sound business justification" test is easily met.

71. Courts have applied four factors in determining whether a sound business justification exists: (i) whether a sound business reason exists for the proposed transaction; (ii) whether fair and reasonable consideration is provided; (iii) whether the transaction has been proposed and negotiated in good faith; and (iv) whether adequate and reasonable notice is provided. *In re Montgomery* 242 B.R. at 153 (citing *Committee of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.)*), 722 F.2d 1063, 1071 (2d Cir. 1983) (setting forth the "sound business purpose" test); see also *In re Abbott's Dairies of Pennsylvania, Inc.*, 788 F.2d 143 149-150 (3d Cir. 1986) (implicitly adopting the articulated business justification test of *Lionel*, and adding the "good faith" requirement); *In re Delaware & Hudson Ry. Co.*, 124 B.R. at 176 ("Once a court is satisfied that there is a sound business reason or an emergency justifying the pre-confirmation sale, the court must also determine that the trustee has provided the interested parties with adequate and reasonable notice, that the sale price is fair and reasonable and that the purchaser is proceeding in good faith."). The sale of the Shares pursuant to the Stock Purchase Agreement meets each of these requirements.

**The Sale Satisfies  
The Sound Business Purpose Test**

72. The Debtors believe that the Sale must be completed as promptly as possible if the Debtors are to maximize the going concern value of their business. Due to the downturn in

the economy, the Debtors' operations and businesses have not performed as well as during comparable prior periods. Moreover, due to the Debtors' ongoing restructuring activities, the Debtors' financial resources have been strained. Thus, there is a risk that the going concern value of the Company will decline if the Sale is delayed. More importantly, the Proposed Purchaser has offered the Debtors substantial value for the Shares and is willing to close the Sale as soon as possible. In fact, the Stock Purchase Agreement may be terminated if the Sale does not close within 90 days of its execution. The Debtors thus fear that any delay of the Sale creates a significant risk to the Debtors' ability to receive such value.

73. Accordingly, well-articulated business reasons exist for approving the Sale, such that the "business purpose" test under Bankruptcy Code section 363 is met. *See Lionel*, 722 F.2d at 1071 ("most important [ ] perhaps, [is] whether the asset is increasing or decreasing in value").

**The Consideration Offered By  
Purchaser Is Fair And Reasonable**

74. The Debtors submit that the sale of the Shares pursuant to the Stock Purchase Agreement will provide fair and reasonable consideration to the Debtors' estates. Specifically, as noted above, the Debtors only began negotiating a definitive stock purchase agreement with the Proposed Purchaser after soliciting initial offers from numerous interested parties. Thus, the Shares have already been shopped and the Proposed Purchaser's offer was determined by the Debtors to be the highest and best offer submitted for the Shares. The Debtors respectfully submit that the consideration they will receive from the Proposed Purchaser in exchange for the Shares is both fair and reasonable. *See e.g. In re China Resource Prod. Ltd. v. Fayda Int'l Inc.*, 856 F. Supp. 856, 865 (Del. D. 1994) (*quoting* Del. Code Ann. tit. 6 § 1303, which states "Fair consideration is defined as: (1) When in exchange for such property, or obligation, as a fair equivalent therefore, and in good faith, property is conveyed . . . or (2) When such property, or obligation is received in good faith . . . in amount not disproportionately small as compared with

the value of the property . . ."); *Geyer v. Ingersoll Publications Co.*, 621 A.2d 784, 792 (Del. Ch. 1992) (held, fair consideration means "a fair equivalent to the property given up.") Accordingly, the consideration to be paid by the Proposed Purchaser or other Successful Bidder is both fair and reasonable, and the ultimate purchaser of the Shares is entitled to all of the protection of Bankruptcy Code Section 363(m).

**The Stock Purchase Agreement  
Was Negotiated In Good Faith**

75. The Stock Purchase Agreement is the product of extensive arm's-length negotiations between the Proposed Purchaser and the Debtors. These negotiations involved substantial time and energy by the parties and their counsel, and the final agreement reflects compromises by both sides.

76. Moreover, the Auction procedure ensures that the Proposed Purchaser has not exerted any undue influence over the Debtors. Furthermore, the Proposed Purchaser is neither an "affiliate" nor an "insider" of the Debtors as defined under Bankruptcy Code Section 101. See Proposed Purchaser's affidavit attached hereto as Exhibit I. Under the circumstances, this Court should therefore find that (i) the sale of the Shares is the result of good faith arm's-length negotiations and (ii) the Proposed Purchaser or the Successful Bidder is entitled to all of the protections of Bankruptcy Code Section 363 (m).

77. In sum, the Debtors have articulated a sound business justification for the sale of the Shares, and the Sale satisfies the requirements of Bankruptcy Code Section 363(b), (m) and (n).

**B. The Sale Satisfies the Requirements of  
Bankruptcy Code Section 363(f) for a Sale Free and  
Clear of Liens, Claims, Encumbrances, and Interests**

78. Under Bankruptcy Code Section 363(f), a debtor-in-possession may sell property free and clear of any lien, claim, encumbrance or interest in such property if, among other things:

- (1) applicable nonbankruptcy law permits sale of such property free and clear of such interest;
- (2) such entity consents;
- (3) such interest is a lien and the price at which such property is sold is greater than the aggregate value of all liens on such property;
- (4) such interest is in bona fide dispute; or
- (5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest. (emphasis added)

11 U.S.C. § 363(f). Because Bankruptcy Code Section 363(f) is drafted in the disjunctive, satisfaction of any one of its five requirements will suffice to approve the sale and assignment by Fansteel of the Shares free and clear of all security interests, conditional sale or other title retention agreements, pledges, liens, judgments, demands, encumbrances, rights of first refusal or charges of any kind or nature, if any, including, but not limited to, any restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership. See 11 U.S.C. § 363 (f); *Citicorp Homeowners Servs., Inc. v. Elliot (In re Elliot)*, 94 B.R. 343, 344 (E.D. Pa. 1988) (Bankruptcy Code Section 363(f) written in disjunctive; court may approve sale "free and clear" provided at least one of the subsections is met). Accordingly, the Sale should be approved under Bankruptcy Code Section 363(f).

**C. The Sale is Exempt from Stamp, Transfer, Recording or Similar Taxes**

79. The Sale is exempt from stamp, transfer, recording or similar taxes because Fansteel intends to apply its net operating losses ("NOLs")<sup>9</sup> to the gain from the sale of the Stock, effectively eliminating the application of Bankruptcy Code Section 1146(c). Under Bankruptcy Code section 1146(c) "the making or delivery of an instrument of transfer under a plan confirmed under Section 1129 of this title may not be taxed under any law imposing a stamp or similar tax." Even if Section 1146(c) were not to be applicable, any and all gain, and

<sup>9</sup> Net operating loss (NOL) is a tax term for the excess of business expenses over income in a tax year. Under tax loss carryback/carryover provisions, NOLs can be carried back three years and forward 15 years.

any tax payable with result to the same will be eliminated by the application of available Net Operating Losses as of the end of Fansteel's tax year (December 31, 2002 ). Attached hereto as Exhibit J is a letter from Fansteel's accountant, McGladrey & Pullen, LLP, that describes the application of the NOLs to the gain realized from the Sale.

**D.    The Bidding Procedures and Break-up Fee  
And Expense Reimbursement Should Be Approved**

80.    The Bidding Procedures, as described above, are fair, reasonable and the best means to ensure that Fansteel obtains the highest and best offer for the Shares.

81.    To compensate the Proposed Purchaser for serving as a "stalking horse" whose bid will be subject to higher or better offers, Fansteel and the Proposed Purchaser seek approval of the Break-Up Fee and Expense Reimbursement in the event the Proposed Purchaser is not the Successful Bidder and/or the Shares are sold to a third party. The Debtors and the Proposed Purchaser believe that the Break-Up Fee and Expense Reimbursement are reasonable, given the benefits to the estates of having a definitive stock purchase agreement and the risk to the Proposed Purchaser that a third-party offer may ultimately be accepted. Accordingly, the Break-Up Fee and Expense Reimbursement is necessary to preserve and enhance the value of the Debtors' estates and to promote competitive bidding.

82.    Bidding incentives encourage the Proposed Purchaser to invest the requisite time, money and effort to negotiate with a debtor and perform the necessary due diligence attendant to the acquisition of a debtor's assets, despite the inherent risks and uncertainties of the chapter 11 process. Historically, bankruptcy courts have approved bidding incentives similar to the Bidding Procedures under the "business judgment rule," which proscribes judicial second-guessing of the actions of a corporation's board of directors taken in good faith and in the exercise of honest judgment. *See, e.g., In re Integrated Resources, Inc.*, 147 B.R. 650, 659 (S.D.N.Y. 1992) ("Break-up fees are important tools to encourage bidding and to maximize the value of the

debtor's assets. The usual rule is that if break-up fees encourage bidding, they are enforceable; if they stifle bidding they are not enforceable."), *appeal dismissed*, 3 F.3d, 49 (2d Cir. 1993); 995 *Fifth Ave. Associates. L.P.*, 96 B.R. 24, 28 (Bankr. S.D.N.Y. 1992) (bidding incentives may "be legitimately necessary to convince a white knight to enter the bidding by providing some form of compensation for the risks it is undertaking") (citation omitted).

83. *In Calpine Corp. v. O'Brien Environ Energy, Inc. (In re O'Brien Environ Energy, Inc.)*, 181 F.3d 527 (3d Cir. 1999), the third circuit held that the administrative expense provisions of Bankruptcy Code section 503(b) govern in the bankruptcy context and, accordingly, bidding incentives must provide some benefit to the debtor's estate. *See id.* at 533.

84. The *O'Brien* court identified at least two instances where bidding incentives may provide benefit to the estate. First, a benefit may be found if "assurance of a break-up fee promoted more competitive bidding, such as by inducing a bid that otherwise would not have been made and without which bidding would have been limited." *Id.* at 537. Second, where the availability of bidding incentives induces a bidder to research the value of the debtor and submit a bid that serves as a minimum or floor bid on which other bidders can rely, "the bidder may have provided a benefit to the estate by increasing the likelihood that the price at which the debtor is sold will reflect its true worth." *Id.*

85. Whether evaluated under the "business judgment rule" or the third circuit's "administrative expenses standard," the Break-Up Fee and Expense Reimbursement pass muster. The Stock Purchase Agreement and the Break-Up Fee and Expense Reimbursement are the product of extended good faith, arm's-length negotiations between the Debtors and the Proposed Purchaser. They are fair and reasonable in amount, particularly in view of the Proposed Purchaser's efforts to date, and the risk to the Proposed Purchaser of being used as a "stalking horse."

86. Further, the Bidding Procedures already have encouraged competitive bidding, in that the Proposed Purchaser would not have entered into the Stock Purchase Agreement without these provisions. The Bidding Procedures thus have "induc[ed] a bid that otherwise would not have been made and without which bidding would [be] limited." *O'Brien*, 181 F.3d at 537. Similarly, the Proposed Purchaser's offer, which was formulated only after an all-inclusive due diligence review of the Company and its value, provides a minimum bid on which other bidders can rely, thereby "increasing the likelihood that the price at which the [Company] will be sold will reflect its true worth." *Id.* at 537. Finally, the mere existence of the Bidding Procedures permits the Debtors to insist that competing bids for the Shares be materially higher or otherwise better than the Stock Purchase Agreement, a clear benefit to the Debtors' estates.

87. In sum, the Bidding Procedures enables Fansteel to ensure the sale of the Shares to a contractually-committed bidder at a price it believes to be fair while providing the opportunity for potential bids of even greater benefit to the estate. Thus, the Bidding Procedures should be approved.

**E. The Court Should Approve the Debtors' Proposed Notice  
Procedures With Respect to the Proposed Sale Hearing and Auction**

88. As soon as practicable after the Court's entry of the Bidding Procedures Order, the Debtors proposes to publish notice of the Auction and Sale Hearing, which form of notice shall be substantially in the form attached as an Exhibit 1 to the Bidding Procedures Order (the "Auction and Sale Notice"), once in *The Wall Street Journal* (national edition), pursuant to Bankruptcy Rule 2002(l). The Debtors propose to serve a copy of the Auction and Sale Notice upon (1) all entities who have filed claims in the Schultz bankruptcy; (2) all entities reasonably known by the Debtors to have an interest in purchasing some or all of the Schultz stock; (3) the landlord of the Lease; and (4) all other parties entitled to notice pursuant to Del. Bankr. L.R.

2002-1. The Debtors request that such notice be deemed proper adequate under the circumstances.

89. The Debtors submit that the foregoing notice is reasonably calculated to provide timely and adequate notice to the Debtors' creditor constituencies and those persons who have expressed an interest in the Company.

**F. The Assumption and Addendum of Lease Should Be Approved**

90. Section 365(a) of the Bankruptcy Code expressly authorizes – subject to court approval – the assumption of any executory contract or unexpired lease by a debtor. The purpose of the statute is to enable a debtor "to maximize the value of the debtor's estate by assuming executory contracts that benefit the estate." Cinicola v. Scharffenberger, 248 F.3d 110, 119 (3d Cir. 2001). "Section 365 enables the trustee [or debtor] to maximize value of the debtor's estates by assuming executory contracts and unexpired leases that benefit the estate and rejecting those that do not." In re Rickel Home Centers, Inc., 209 F.3d 291 (3d Cir. 2000).

91. In determining whether to approve a debtor's decision to assume an executory contract, courts have consistently applied a "business judgment" test in their review of such decisions. See, e.g., In re Market Square Inn, 978 F.2d 116 (3d Cir. 1992); Delightful Music Ltd. v. Taylor (In re Taylor), 913 F.2d 102 (3d Cir. 1990); Group of Institutional Investors v. Chicago, Milwaukee, St. Paul & Pacific Railroad Co., 318 U.S. 523, 550 (1943) (explaining that whether an executory contract or lease should be assumed or rejected is a question of business judgment).

92. A debtor satisfies the "business judgment" test when it determines, in good faith, that assumption of an executory contract will benefit the debtor's estate and its unsecured creditors. In re Sharon Steel Corp., 872 F.2d 36 (3d Cir. 1989) (a trustee or debtor in possession



needs to establish that [assumption or] rejection will benefit the estate); In re Papercraft Corp., 129 B.R. 56 (W.D. Pa. 1991).

93. The assumption and assignment of the Addendum is a condition precedent to Stock Purchase Agreement. Fansteel believes, pursuant to its business judgment, that it is in the best interest of its estate to assume and assign the Addendum.

**G. The Lincoln Partners Success Fee Should Be Approved**

94. On February 25, 2002, this Court entered an order (the "Retention Order") authorizing the Debtors' employment and retention of Lincoln Partners pursuant to the terms of the letter agreement dated January 14, 2002 attached and made part of the Retention Order. By letter agreement dated March 8, 2002 attached hereto as Exhibit K (the "Engagement Letter"), the Debtors and Committee agreed to amend the letter agreement dated January 14, 2002.

95. The Engagement Letter provides that Lincoln Partners is entitled to a success fee of \$130,000 for the sale of the Company, and the Retention Order provides that the success fee is payable upon the filing and approval of interim and final applications under Order Under 11 U.S.C. §§ 105(a) And 331 Establishing Procedures For Interim Compensation And Reimbursement Of Expenses For Professionals And Committee Members entered February 25, 2002 (the "Reimbursement Order").

96. The Debtors submit that the success fee is reasonable for this transaction and should be paid in accordance with the Reimbursement Order.

**H. Committee Support**

97. The Committee has reviewed the Motion, the bidding procedures order, the sale order and the Stock Purchase Agreement and fully supports the Sale as contemplated by Fansteel. Moreover, as discussed in paragraph 33 of this Motion, Fansteel and the Committee have also agreed to the use of the proceeds from the Sale.

**I. Notice**

98. This Motion has been served on (a) all parties requesting service pursuant to Federal Rule of Bankruptcy Procedure 2002-1(b), (b) National City Bank, (c) creditors who have filed secured claims in these bankruptcy cases, (d) all taxing authorities for the Debtor, (e) the Pension Benefit Guaranty Corporation, (f) landlords under the Lease, (g) Lincoln Partners LLP, (h) Congress Financial Corporation (Central), (i) all parties reasonably ascertainable to be interested in purchasing the Shares, (j) the Office of the United States Trustee, (k) the committee, and (l) certain parties associated with Debtors' environmental matters. Debtors submit that such notice is adequate pursuant to

**WHEREFORE**, the Debtors respectfully request that the Court (i) if objections are timely filed and served, enter an order, substantially in the form attached as Exhibit A, scheduling a hearing on approval of the bidding procedures, the Break-up Fee and the Expense Reimbursement, (ii) enter an order, substantially in the form attached as Exhibit B, approving the Bidding Procedures and Break-Up Fee and Expense Reimbursement in connection with the sale of the Shares, and approving the form and manner of notice of the Motion and the Sale, and (iii) enter an order substantially in the form attached as Exhibit C, (i) approving the Stock Purchase Agreement or a modification thereof, if another party is the Successful Bidder at the Auction, (ii) approving the sale of the Shares to the Proposed Purchaser or such other party making a higher and better offer therefor, (iii) determining that such sale is exempt from any

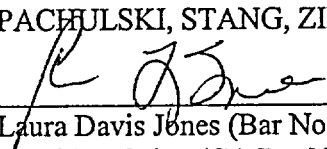
stamp, transfer, recording or similar tax, and (iv) approving the lease amendment and (v) granting the Debtors such other relief as may be appropriate.

Dated: October 29, 2002

SCHULTE ROTH & ZABEL LLP  
Jeffrey S. Sabin (JSS-7600)  
Michael R. Mitchell (MRM-9279)  
919 Third Avenue  
New York, NY 10022  
Telephone: (212) 756-2000  
Facsimile: (212) 593-5955

and

PACHULSKI, STANG, ZIEHL, YOUNG & JONES P.C.



---

Laura Davis Jones (Bar No. 2436)  
Hamid Rafatjoo (CA Bar No. 181564)  
Rosalie L. Spelman (Bar No. 4153)  
919 North Market Street, 16<sup>th</sup> Floor, P.O. Box 8705  
Wilmington, DE 19899-8705 (Courier 19801)  
Telephone: (302) 652-4100  
Facsimile: (302) 652-4400

Co-Counsel for the Debtors and  
the Debtors-in-Possession

# **Exhibit A**

**IN THE UNITED STATES BANKRUPTCY COURT**  
**FOR THE DISTRICT OF DELAWARE**

In re:	)	Chapter 11
	)	
FANSTEEL INC., <u>et al.</u> , <sup>1</sup>	)	Case No. 02-10109 (JJF)
	)	(Jointly Administered)
	)	
Debtors.	)	

**ORDER SCHEDULING HEARING ON  
DEBTORS' MOTION TO APPROVE BIDDING PROCEDURES  
AND BREAK-UP FEE AND EXPENSE REIMBURSEMENT IN  
CONNECTION WITH THE PROPOSED SALE OF STOCK<sup>2</sup>**

Upon the motion (the "Motion") of the above-captioned debtors and debtors-in-possession (the "Debtors") for entry of (I) an order scheduling a hearing date on approval of the bidding procedures, break-up fee and expense reimbursement; (II) an order under 11 U.S.C. §§ 105 and 363 and Fed. R. Bankr. P. 6004(f): (A) approving bidding procedures (the "Bidding Procedures Order") and a break-up fee and expense reimbursement in connection with the proposed sale by Fansteel, Inc. ("Fansteel") to Hancock Park Associates (the "Proposed Purchaser") of all of the issued and outstanding Shares<sup>2</sup> of capital stock of Fansteel Schulz Products, Inc. (the "Company"), (B) scheduling a hearing date, auction date, and bidding deadlines and procedures in connection with the sale of the Shares, and (C) approving the form and manner of notice thereof (collectively, "Part I of the Motion"); and (III) an order (the "Sale Order") under 11 U.S.C. §§ 105, 363, 365 and 1146(c) and Fed. R. Bankr. P. 2002(a)(2) and (c)(1), 6004 and 6006: (A) approving the Stock Purchase Agreement, dated as of October 25,

<sup>1</sup>The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.

<sup>2</sup> The entry of this Order is only in contemplation of the receipt of timely filed objections to the Motion.

<sup>3</sup> Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Stock Purchase Agreement.

2002 (the "Stock Purchase Agreement"), between Fansteel and the Proposed Purchaser or a modification thereof, if another party is the Successful Bidder, (B) approving the sale of the Shares to the Proposed Purchaser or such other party making a higher and better offer therefor, (C) determining that such sale is exempt from any stamp, transfer, recording or similar taxes, and (D) approving lease amendment (collectively, "Part II of the Motion"); and it appearing that no other or further notice need be given; and after due deliberation and sufficient cause appearing therefor, it is

ORDERED that a hearing to consider that part of the Motion seeking approval of the Bidding Procedures And Break-up Fee and Expense Reimbursement shall be held before the Honorable Joseph J. Farnan on [      ], 2002 at [    ] a.m. (EST) at the United States Bankruptcy Court for the District of Delaware, located in Wilmington, Delaware or as soon thereafter as counsel may be heard; and it is further

ORDERED that a copy of this order shall be served by regular mail upon (i) Hancock Park Associates, 10323 Santa Monica Blvd., Ste. 101, Los Angeles, CA 90025-5056, Attn: Michael J. Fourticq, Sr.; (ii) Paul, Hastings, Janofsky & Walker LLP, 25<sup>th</sup> Floor, 515 S. Flower Street, Los Angeles, CA 90071-2228, Attn: Robert A. Miller, Esq., attorney for the Proposed Purchaser; (iii) the Office of the United States Trustee; (iv) counsel to the Official Committee of Unsecured Creditors; (v) all appropriate federal, state and local taxing authorities, (v) all parties who have made written expressions of interests in acquiring the Shares; and (vii) all parties having filed a notice of appearance in the Debtors' chapter 11 cases, which service shall constitute good and sufficient notice of this order and the hearing on the Bidding Procedures, Break-up Fee And Expense Reimbursement; and it is further

ORDERED that all objections to the Bidding Procedures, Break-up Fee and Expense Reimbursement as described in the Motion will have been in writing, state the name of the objecting party, must state the particularity of the reasons and basis for the objection, and filed with the Court and served upon (i) Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attn: Jeffrey S. Sabin, Esq., attorney for the Debtors, (ii) Paul, Hastings, Janofsky & Walker LLP, 25<sup>th</sup> Floor, 515 S. Flower Street, Los Angeles, CA 90071-2228, Attn: Robert A. Miller, Esq., attorney for the Proposed Purchaser; (iii) the Office of the United States Trustee, 844 King Street, Ste. 2313, Wilmington, DE 19801, Attn: David Buchbinder; and (iv) Freeborn & Peters, 311 South Wacker Drive, Ste. 3000, Chicago Ill. 60606-6677, Attn: Frances Gecker, Esq., counsel for the creditors' committee, so that such objections are actually received by such persons no later than November 8, 2002 at 4:00 p.m. (EST).

Dated: \_\_\_\_\_, 2002

\_\_\_\_\_  
The Honorable Joseph J. Farnan, Jr.  
United States District Court Judge

# **Exhibit B**



IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
	)	
FANSTEEL INC., <u>et al.</u> , <sup>1</sup>	)	Case No. 02-10109 (JJF)
	)	(Jointly Administered)
	)	
Debtors.	)	

**ORDER UNDER 11 U.S.C. §§ 105 AND 363 AND FED. R. BANKR. P. 6004  
(I) APPROVING BIDDING PROCEDURES AND BREAK-UP FEE AND EXPENSE  
REIMBURSEMENT IN CONNECTION WITH THE PROPOSED SALE OF THE  
SHARES, (II) SCHEDULING A HEARING DATE, AUCTION DATE AND BIDDING  
DEADLINE IN CONNECTION WITH SUCH SALE AND  
(III) APPROVING FORM AND MANNER OF NOTICE THEREOF**

Upon the motion (the "Motion") of Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (the "Debtors") for entry of (I) an order scheduling a hearing date to approve the bidding procedures and break-up fee and expense reimbursement, (II) an order under 11 U.S.C. §§ 105 and 363 and Fed. R. Bankr. P. 6004(f) (A) approving bidding procedures (the "Bidding Procedures Order") and a break-up fee and expense reimbursement in connection with the proposed sale by Fansteel Inc. ("Fansteel") to Hancock Park Associates ("Proposed Purchaser") of all of the issued and outstanding Shares<sup>2</sup> of capital stock of Fansteel Schulz Products, Inc. (the "Company"), (B) scheduling a hearing date, auction date, and bidding deadlines and procedures in connection with the sale of the Shares, and (C) and approving the form and manner of notice thereof (collectively, "Part I of the Motion"); and (III) an order (the "Sale Order") under 11 U.S.C. §§ 105, 363, 365 and 1146(c) and Fed. R. Bankr. P. 2002(a)(2)

---

<sup>1</sup> The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc. and Fansteel Schulz Products, Inc.

<sup>2</sup> Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Stock Purchase Agreement.

and (c)(1), 6004 and 6006, (A) approving the Stock Purchase Agreement, dated as of October 25, 2002 (the "Stock Purchase Agreement") between Fansteel and Proposed Purchaser or a modification thereof, if another party is the Successful Bidder, (B) approving the sale of the Shares to the Proposed Purchaser or such other party making a higher and better offer therefore, (C) determining that such sale is exempt from any stamp, transfer, recording or similar taxes, and (D) approving the assumption and assignment of a certain lease of real property occupied by the Company in San Gabriel, California (collectively, "Part II of the Motion"); and sufficient notice of the Motion having been given; and after due deliberation and good cause having been shown, the Court finds as follows:

A. As of October 25, 2002, Fansteel entered into a Stock Purchase Agreement, substantially in the form attached as Exhibit D to the Motion, wherein Fansteel agreed to sell all of the Shares to the Proposed Purchaser for a purchase price of \$2,350,000 (subject to adjustments) (the "Purchase Price").

B. Proposed Purchaser is prepared to purchase the Shares as described in the Stock Purchase Agreement. The Proposed Purchaser has committed substantial time and money to the transaction contemplated in the Stock Purchase Agreement.

C. The Stock Asset Purchase Agreement contains a conditional requirement to pay a Break-Up Fee and Expense Reimbursement, if a Qualified Bid prevails and is approved. The Break-Up Fee and Expense Reimbursement is the product of extensive negotiations between the Proposed Purchaser and Fansteel. The Break-Up Fee and Expense Reimbursement is a condition precedent to the effectiveness of the Stock Purchase Agreement. In the absence of such fee, the Proposed Purchaser, as an initial offeror, would be discouraged from making an offer, due to the fear that its initial offer would be "shopped around" and outbid by an entity that

would rely upon the due diligence, time, and effort expended by the Proposed Purchaser. The payment of the Break-Up Fee and Expense Reimbursement, if payable under the Stock Purchase Agreement, will not have an adverse impact upon Fansteel, its estate or its creditors. The Break-Up Fee and Expense Reimbursement is necessary to convince the Proposed Purchaser to proceed with the transactions contemplated by the Stock Purchase Agreement and thus, commence the bidding process for the sale of the Shares. The Break-Up Fee and Expense Reimbursement is reasonable in relation to the Proposed Purchaser's costs, efforts and risks, and the magnitude of the transactions contemplated in the Stock Purchase Agreement.

D. Good and sufficient notice of the relief sought in Part I of the Motion has been given in accordance with the Scheduling Order and no other or further notice is required.

E. Fansteel's proposed notice of the sale of the Shares and bidding procedures announcing the Sale and the approval of the bidding procedures is appropriate and reasonably calculated to provide all interested parties with timely and proper notice of the sale of the Shares and the overbid procedures to be employed in connection therewith.

F. Fansteel has demonstrated a sound business justification for authorizing the payment of the Break-Up Fee and Expense Reimbursement to the Proposed Purchaser under the circumstances, timing and procedures set forth in the Motion.

G. The Break-up Fee and Expense Reimbursement is fair and reasonable, and was negotiated by the parties in good faith.

H. Fansteel's payment to the Proposed Purchaser of the Break-up Fee and Expense Reimbursement, in the event the Proposed Purchaser is not the Successful Bidder, is (i) an actual and necessary cost of preserving Fansteel's estate, within the meaning of 11 U.S. § 503(b), (ii) of substantial benefit to the Fansteel's estate, (iii) reasonable and appropriate, in light

of the size and nature of the Sale and the efforts that have been and will be expended by the Proposed Purchaser notwithstanding that the proposed Sale is subject to higher or better offers and (iv) necessary to ensure that the Proposed Purchaser will continue to pursue its proposed acquisition of the Shares.

I. The entry of this Order ("Bidding Procedures Order") is in the best interests of Fansteel, its estate and creditors. Accordingly, it is

**ORDERED and ADJUDGED** as follows:

1. The Motion is GRANTED to the extent provided herein.
2. Fansteel shall provide notice by publication of the Final Sale Hearing date established by this Bidding Procedures Order, substantially in the form of notice which is annexed as Exhibit 1 (the "Notice"). Fansteel shall place the Notice in *The Wall Street Journal* following the date of this Bidding Procedures Order. The Notice shall also be served by regular U.S. mail on all parties who received copies of the Motion, as well as all creditors of the Company who have timely filed a proof of claim or who have been listed on the Company's bankruptcy Schedules.
3. At the Sale Hearing, the Court will consider the Motion to sell the Shares to the Proposed Purchaser (or any prevailing Qualified Bidder(s)), pursuant to the Stock Purchase Agreement, and any timely objections thereto, in accordance with the procedures approved herein below ("Bidding Procedures"), such that no Qualified Bid(s) will be considered for approval unless it satisfies, at a minimum, each of the following conditions.

**The Bidding Process**

4. The Seller shall (i) determine whether any person is a Qualified Bidder (as defined below), (ii) coordinate the efforts of Qualified Bidders in conducting their due diligence investigations, (iii) receive offers from Qualified Bidders and (iv) negotiate any offers made to

purchase the Shares (collectively, the "Bidding Process"). Any person who wishes to participate in the Bidding Process must be a Qualified Bidder. Neither the Seller nor its representatives shall be obligated to furnish any information of any kind whatsoever to any person who is not determined to be a Qualified Bidder. Qualified Bidders shall be given all relevant information pertaining to the Sale. The Seller shall have the right to adopt such other rules for the Bidding Process, which rules will better promote the goals of the Bidding Process and that are not inconsistent with any of the other provisions hereof or of any Court order.

#### Participation Requirements

5. Unless otherwise ordered by the Court for cause shown or as otherwise determined by the Seller, in order to participate in the Bidding Process each person (a "Proposed Bidder") must deliver (unless previously delivered) to the Seller:

- (i) An executed confidentiality agreement in form and substance satisfactory to the Seller; and
- (ii) Current audited financial statements of the Proposed Bidder, or, if the Proposed Bidder is an entity formed for the purpose of acquiring the Shares, current audited financial statements of the equity holder(s) of the Proposed Bidder, or such other form of financial disclosure acceptable to the Seller and its advisors demonstrating such Proposed Bidder's ability to close a proposed transaction.

6. A "Qualified Bidder" is any Proposed Bidder or multiple Proposed Bidders participating in the Bidding process together that delivers the documents described in subparagraphs (i) and (ii) above, whose financial information demonstrates the financial capability of the Proposed Bidders, either jointly or separately, to consummate the Sale, and that the Seller determines are reasonably likely (based on availability of financing, experience and other considerations) to submit a bona fide offer and to be able to consummate the Sale if selected as the Successful Bidder.

7. Within two business days after a Proposed Bidder delivers all of the materials required by subparagraphs (i) and (ii) above, the Seller shall determine, and shall notify the Proposed Bidder, if such Proposed Bidder is a Qualified Bidder.

#### **Due Diligence**

8. The Seller may afford any Qualified Bidder the opportunity to conduct a due diligence review. The Seller will designate an employee or other representative to coordinate all reasonable requests for additional information and due diligence access from Qualified Bidders. The Seller shall not be obligated to furnish any due diligence information after the Bid Deadline (as hereinafter defined). Neither the Seller nor any of its representatives are obligated to furnish any information to any person. Bidders are advised to exercise their own discretion before relying on any information provided by anyone other than the Seller or its representatives.

#### **Bid Deadline**

9. A Qualified Bidder who desires to make a bid shall deliver a written copy of its bid to the Seller, c/o Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, NY 10022, Attn.: Jeffrey Sabin, Esq., not later than 11:00 a.m. (EST) on the date which is three Business Days prior to the date scheduled by the Court for the Sale Hearing (the "Bid Deadline"). The Seller will immediately distribute by facsimile transmission, personal delivery or reliable overnight courier service in accordance with the Stock Purchase Agreement, a copy of each bid upon receipt to counsel for the Proposed Purchaser. The Seller may, in its discretion, extend the Bid Deadline once or successively, but is not obligated to do so. The Seller shall announce the terms of the highest and best Qualified Bids received by the Bid Deadline.

### Bid Requirements

10. For the purposes of determining the existence of a bid, a bid may be in the form of a joint bid from more than one Qualified Bidder, or may be in the form of separate bids from more than one Qualified Bidder, with each such separate bid being for a portion of the Shares, but all of such separate bids collectively aggregating a bid price having a value greater than or equal to the sum of (x) the value, as reasonably determined by the independent financial advisor of the Seller, of the Proposed Purchaser's offer plus (y) the amount of the Break-Up Fee and Expense Reimbursement (as defined below) plus (z) (A) in the case of the initial Qualified Bid, \$40,000, and (B) in the case of any subsequent Qualified Bids, \$40,000 plus the amount by which the preceding Qualified Bid exceeds the sum of (x) plus (y) above. All bids must include the following documents (the "Required Bid Documents"):

- a letter stating that one or more Qualified Bidders offer to purchase all or a portion of the Shares and that such offer is irrevocable until 2 business days after the Shares have been disposed of pursuant to these Bidding Procedures;
- a statement by each Qualified Bidder that it is prepared to enter into and consummate the Sale as soon as practicable but in no event more than thirty-one (31) days after entry by the Court of the 363 Order;
- an executed copy of the Stock Purchase Agreement, together with all Exhibits and Schedules thereto (the "Definitive Sale Documentation") marked and initialed to show those amendments and modifications to such agreement that the Qualified Bidder proposes, including, but not limited to, price and the time of closing;
- a good faith deposit (the "Good Faith Deposit") in the form of a certified check or other form acceptable to the Seller in its sole discretion payable to the order of the Seller (or such other party as the Seller may determine) in an amount equal to \$235,000. All Qualified Bidders shall enter into an escrow agreement as directed by the Seller;
- written evidence of a commitment for financing or other evidence of ability to consummate the proposed transaction satisfactory to the Seller; and

- a statement by each Qualified Bidder as to whether such bidder intends to assume any liabilities associated with any defined benefit plan sponsored by the Company.

11. The Seller will consider a bid only if the bid is on terms that are not conditioned on obtaining financing or on the outcome of unperformed due diligence by the bidder. A bid received from a Qualified Bidder that includes all of the Required Bid Documents and meets all of the above requirements is a "Qualified Bid."

12. If the Seller does not receive any Qualified Bids, the Seller will report the same to the Court and will proceed with a sale and assignment of the Shares to the Proposed Purchaser pursuant to the terms of the Stock Purchase Agreement. The Stock Purchase Agreement executed by the Proposed Purchaser shall constitute a Qualified Bid for all purposes.

#### Bid Protection

13. The payment of the Break-Up Fee and Expense Reimbursement is hereby approved.

#### Auction

14. If the Seller receives a Qualified Bid, the Seller will conduct an auction (the "Auction") at the offices of Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, NY 10022, on the date that is one Business Day prior to the date scheduled by the Court for the Sale Hearing, beginning at 11:00 a.m. (EST) or such later time or other place as the Seller shall notify all Qualified Bidders who have submitted Qualified Bids. Only the Proposed Purchaser, the Seller, the Committee and any Qualified Bidders who have timely submitted Qualified Bids shall be entitled to attend the Auction, and only the Proposed Purchaser and Qualified Bidders will be entitled to make any subsequent Qualified Bids at the Auction. During the Auction, bidding shall begin initially with the highest Qualified Bid and continue in minimum increments of at least \$40,000 higher than the previous Qualified Bid. Bidding at the Auction will continue until



such time as the highest and best Qualified Bid is determined. The Seller may announce at the Auction additional procedural rules that are reasonable under the circumstances (e.g., the amount of time allotted to make subsequent overbids) for conducting the Auction so long as such rules are not inconsistent with these Bidding Procedures.

15. Upon conclusion of the Auction, the Seller, in consultation with its financial and business advisors shall (i) review each Qualified Bid or bids on the basis of financial and contractual terms and the factors relevant to the sale process, including those factors affecting the speed and certainty of consummating the Sale, and (ii) identify the highest and otherwise best offer for the Shares (the "Successful Bid"), which highest and best offer will provide the largest amount of net value to the Seller after payment of, among other things, the Break-Up Fee and Expense Reimbursement, if necessary. The Seller may adopt rules for the bidding process at the Auction that will better promote the goals of the bidding process and that are not inconsistent with any of the provisions of the Bankruptcy Code, any Court order, or these Bidding Procedures.

#### Acceptance Of Qualified Bids

16. The Seller shall sell the Shares for the highest or otherwise best Qualified Bid received at the Auction upon the approval of such Qualified Bid by the Court after the hearing (the "Sale Hearing"). The Seller's presentation of a particular Qualified Bid to the Court for approval does not constitute the Sellers' acceptance of the bid. The Seller will be deemed to have accepted a bid only when the bid has been approved by the Court at the Sale Hearing.

#### Sale Hearing

17. The Sellers request a hearing at the earliest convenience of the Court at the United States Bankruptcy Court for the District of Delaware, located in Wilmington, Delaware.

Such hearing may be adjourned or rescheduled without further notice by an announcement of the adjourned date at the Sale Hearing.

18. Following the Sale Hearing approving the sale of the Shares to the Successful Bidder, if such Successful Bidder fails to consummate an approved sale because of a breach or failure to perform on the part of such Successful Bidder, the next highest or otherwise best Qualified Bid, as disclosed at the Sale Hearing, shall be deemed to be the Successful Bid and the Seller shall be authorized, but not required, to consummate the sale with the Qualified Bidder submitting such bid without further order of the Court.

#### **Return Of Good Faith Deposit**

19. Good Faith Deposits of all Qualified Bidders (except for the Successful Bidder) shall be held in an interest-bearing escrow account until two (2) days following the Auction. If a Successful Bidder fails to consummate an approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Seller will not have any obligation to return the Good Faith Deposit deposited by such Successful Bidder.

#### **Modifications**

20. The Seller may (a) determine, which Qualified Bid, if any, is the highest or otherwise best offer; and (b) reject at any time before entry of an order of the Court approving a Qualified Bid, any bid that is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code, the Bidding Procedures, or the terms and conditions of sale, or (iii) contrary to the best interests of the Seller, its estates and creditors. At or before the Sale Hearing, the Seller may impose such other terms and conditions as it may determine to be in the best interests of the Seller's estate, its creditors and other parties-in-interest.

### Objections

21. All objections to the Sale Motion must be in writing, must state the name of the objecting party, must state the particularity of the reasons and basis for the objection, and must be filed with the Court (with a copy hand delivered to Chambers) and served upon (i) Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attn.: Jeffrey S. Sabin, Esq., attorney for the Debtors, (ii) Paul, Hastings, Janofsky & Walker LLP, 25<sup>th</sup> Floor, 515 S. Flower Street, Los Angeles, CA 90071-2228, Attn.: Robert A. Miller, Esq., attorney for the Proposed Purchaser, (iii) the Office of the United States Trustee, 844 King Street, Ste. 2313, Wilmington, DE 19801, Attn.: David Buchbinder, and (iv) Freeborn & Peters, 311 South Wacker Drive, Ste. 3000, Chicago, IL 60606-6677, Attn.: Frances Gecker, Esq., counsel for the creditors' committee, so that objections are actually received by such person no later than November 18, 2002 at 4:00 p.m. (EST).

22. The Bankruptcy Court shall retain jurisdiction over any matters related to or arising from the implementation of this Bidding Procedures Order, including, but not limited to, the right to amend this Bidding Procedures Order.

Dated: \_\_\_\_\_, 2002

\_\_\_\_\_  
The Honorable Joseph J. Faman, Jr.  
United States District Court Judge

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re: ) Chapter 11  
)  
FANSTEEL INC., et al.,<sup>1</sup> ) Case No. 02-10109 (JJF)  
) (Jointly Administered)  
)  
Debtors. )

**NOTICE OF: (I) SALE OF STOCK OF FANSTEEL SCHULZ PRODUCTS, INC.,  
(II) BIDDING AND SALE PROCEDURES AND FINAL SALE HEARING AND (III)  
APPROVED BREAK-UP FEE AND EXPENSE REIMBURSEMENT**

NOTICE IS HEREBY GIVEN pursuant to Fed. R. Bankr. P. 2002(a)(2) and (c)(1), 6004(a) and 6006(c), that on [ ], 2002, the Debtors have filed a Motion for Orders under 11 U.S.C. § 105, 363, 365 and 1146(c) and Fed. R. Bankr. P. 6004 and 6006: (I) Scheduling Hearing on Approval of Bidding Procedures, Break-up Fee and Expense Reimbursement, (II) (A) Approving Bidding Procedures and Break-up Fee and Expense Reimbursement in Connection with the Proposed Sale of the Shares, (B) Scheduling a Hearing Date, Auction Date and Bidding Deadline in Connection with the Sale of such Shares, and (C) Approving Form and Manner of Notice thereof; and (III) (A) Approving the Stock Purchase Agreement with Hancock Park Associates and Fansteel Inc., (B) Approving the Sale of the Shares, (C) Determining that such Sale is exempt from Stamp, Transfer, Recording or Similar Taxes, and (D) approving the assumption and assignment of a certain lease of real property occupied by the Company in San Gabriel, California (the "Motion").

PLEASE TAKE FURTHER NOTICE that Fansteel Inc. ("Fansteel") seeks the following relief, among other things, in the Motion:

(a) authority to, among other things, sell all the shares of Fansteel Schulz Products, Inc. ("Shares") to Hancock Park Associates ("Proposed Purchaser") for a purchase price of \$2,350,000, subject to certain adjustments, subject to higher and better offers, and provided that the sale to Proposed Purchaser is consummated on or before January 22, 2002;

(b) authority, pursuant to 11 U.S.C. §§ 363(b) and (f), to sell the Shares free and clear of any claims, liens and encumbrances; and

<sup>1</sup> The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp., Washington Mfg. Co., Phoenix Aerospace Corp., American Sintered Technologies, Inc. and Fansteel Schulz Products, Inc.

(c) a finding of the Bankruptcy Court that Proposed Purchaser (or such other purchaser of the Stock pursuant to the Motion) is a good-faith purchaser entitled to the protections of 11 U.S.C. § 363(m).

PLEASE TAKE FURTHER NOTICE that:

(a) By order dated [ ], 2002 (the "Bidding Procedures Order"), the Bankruptcy Court has approved bidding procedures governing the sale of the Shares, and has scheduled a hearing to consider approval of the Sale (the "Sale Hearing") to be held on [ ], 2002 at [ ] a.m. (EST) before the Honorable Joseph J. Farnan, United States Judge, in the United States Court for the District of Delaware. Any objection to the proposed sale shall be filed with the Court and served on counsel identified below;

(b) all objections to the Sale must be in writing, must state the name of the objecting party, must state the particularity of the reasons and basis for the objection, and must be filed with the Court (with a copy hand delivered to Chambers) and served upon (i) Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attn.: Jeffrey S. Sabin, Esq., attorney for the Debtors, (ii) Paul, Hastings, Janofsky & Walker LLP, 25<sup>th</sup> Floor, 515 S. Flower Street, Los Angeles, CA 90071-2228, Attn.: Robert A. Miller, Esq., attorney for the Proposed Purchaser, (iii) the Office of the United States Trustee, 844 King Street, Ste. 2313, Wilmington, DE 19801, Attn.: David Buchbinder, Esq. and (iv) Freeborn & Peters, 311 South Wacker Drive, Ste. 3000, Chicago, IL 60606-6677, Attn.: Frances Gecker, Esq., counsel for the Official Committee of Unsecured Creditors, so that objections are actually received by such person no later than November 18, 2002 at 4:00 p.m.;

(c) the District Court approved a Break-Up Fee and Expense Reimbursement in favor of Proposed Purchaser in the amount of \$70,500 as set forth in the Stock Purchase Agreement, that will be payable at the Closing from the sale proceeds of any higher Qualified Bids as a pre-condition to the sale closing and before any application of the sale proceeds; and

(d) Fansteel will either seek to approve the proposed sale of the Stock to Purchaser pursuant to a proposed Stock Purchase Agreement, or will entertain any Qualified Bids for the purchase of the Stock. Pursuant to the Bidding Procedures Order, to be a Qualified Bid, the Bid must equal the sum of (x) the value, as reasonably determined by the independent financial advisor of the Seller, of the Proposed Purchaser's offer plus (y) the amount of the Break-Up Fee and Expense Reimbursement plus (z) (A) in the case of the initial Qualified Bid, \$40,000, and (B) in the case of any subsequent Qualified Bids, \$40,000 plus the amount by which the preceding Qualified Bid exceeds the sum of (x) plus (y) above and meet certain other conditions. Any Qualified Bid must be submitted in writing to (i) Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attn.: Jeffrey S. Sabin, Esq., attorney for Fansteel, (ii) Paul, Hastings, Janofsky & Walker LLP, 25<sup>th</sup> Floor, 515 S. Flower Street, Los Angeles, CA 90071-2228, Attn.: Robert A. Miller, Esq., attorney for the Proposed Purchaser, (iii) the Office of the United States Trustee, 844 King Street, Ste. 2313, Wilmington, DE 19801, Attn.: David Buchbinder, and (iv) Freeborn & Peters, 311 South Wacker Drive, Ste. 3000, Chicago, IL 60606-6677, Attn.: Frances Gecker, Esq., counsel for the Official Committee of Unsecured Creditors, not later than 11:00 a.m. (EST) on [ ], 2002, along with evidence of financial responsibility (as provided in the Bidding Procedures Order), and must satisfy all

conditions set forth in the Bidding Procedures Order. No Qualified Bid will be considered unless it satisfies, at a minimum, the terms and conditions set forth in the Bidding Procedures Order. Prospective Qualified Bidders also may conduct due diligence as provided in the Bidding Procedures Order.

Copies of the Bidding Procedures Order, the Motion and Sale Order, and other related items may be obtained from: Schulte Roth & Zabel LLP, 919 Third Avenue, New York, New York 10022, Attn.: Jeffrey S. Sabin, Esq., attorney for Debtors.

Dated: \_\_\_\_\_, 2002

\_\_\_\_\_  
The Honorable Joseph J. Farnan, Jr.  
United States District Court Judge

# **Exhibit C**

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:	)	Chapter 11
	)	
FANSTEEL INC., <u>et al.</u> , <sup>1</sup>	)	Case No. 02-10109 (JJF)
	)	(Jointly Administered)
	)	
Debtors.	)	

**ORDER UNDER 11 U.S.C. §§ 105, 363, 365 AND 1146(c) AND FED. R. BANKR. P. 2002(a)(2) AND (c)(1), 6004 AND 6006: (A) APPROVING THE STOCK PURCHASE AGREEMENT WITH HANCOCK PARK ASSOCIATES AND FANSTEEL INC., (B) APPROVING THE SALE OF THE SHARES, (C) DETERMINING THAT SUCH SALE IS EXEMPT FROM ANY STAMP, TRANSFER, RECORDING OR SIMILAR TAXES AND (D) APPROVING ASSUMPTION AND ASSIGNMENT OF LEASE ADDENDUM**

Upon the motion (the "Motion") of Fansteel Inc. ("Fansteel") and its affiliated debtors and debtors-in-possession (the "Debtors"), for the entry of: an (I) order scheduling a hearing date to approve the bidding procedures and break-up fee and expense reimbursement; (II) an order under 11 U.S.C. §§ 105 and 363 and Fed. R. Bankr. P. 6004(f): (A) approving bidding procedures (the "Bidding Procedures Order") and a break-up fee and expense reimbursement in connection with the proposed sale by Fansteel Inc. ("Fansteel") to Hancock Park Associates ("Proposed Purchaser") of all of the issued and outstanding Shares<sup>2</sup> of capital stock of Fansteel Schulz Products, Inc. (the "Company"), (B) scheduling a hearing date, auction date and bidding deadlines and procedures in connection with the sale of the Shares, and (C) approving the form and manner of notice thereof (collectively, "Part I of the Motion"); and (III) an order (the "Sale Order") under 11 U.S.C. §§ 105, 363, 365 and 1146(c) and Fed. R. Bankr. P. 2002(a)(2) and

---

<sup>1</sup> The Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics Corp.; Washington Mfg Co, Phoenix Aerospace Corp, American Sintered Technologies, Inc. and Fansteel Schulz Products, Inc.

<sup>2</sup> Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Stock Purchase Agreement



(c)(1), 6004 and 6006: (A) approving the Stock Purchase Agreement, dated as of October 25, 2002 between Fansteel and the Proposed Purchaser or a modification thereof (the "Stock Purchase Agreement") if another party is the Successful Bidder, (B) approving the sale of the Shares to the Proposed Purchaser or such other party making a higher and better offer therefore, (C) determining that such sale is exempt from stamp, transfer, recording or similar taxes, and (D) approving the assumption and assignment of a certain lease of real property occupied by the Company in San Gabriel, California (collectively, "Part II of the Motion"); and it appearing that no other or further notice need be given; and after due deliberation and sufficient cause appearing therefore;

**IT IS HEREBY FOUND AND DETERMINED THAT:<sup>3</sup>**

A. Fansteel received no offers for the Shares other than the offer of the Proposed Purchaser, and Proposed Purchaser is declared the highest and best bidder for the Shares.

B. The Purchase Price for the Shares under the Stock Purchase Agreement is \$2.35 million (\$2,350,000) in cash, subject to certain adjustments, and subject to higher and better offers.

C. The Purchase Price for the Shares is fair and reasonable, and constitutes reasonable consideration and reasonably equivalent value under the Bankruptcy Code and applicable state law. Approval of the Stock Purchase Agreement and the sale of the Shares in accordance therewith at this time are in the best interests of the Debtors and their respective creditors and estates.

---

<sup>3</sup> Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Bankruptcy Rule 7052.

D. A valid and sound business purpose exists for approval of the transactions contemplated by Part II of the Motion pursuant to section 363(b) of the Bankruptcy Code. The terms of the Stock Purchase Agreement were negotiated at arms length and are fair and reasonable.

E. Proper, timely, adequate and sufficient notice of the Motion, the proposed sale, the Hearings, the sale of the Shares has been provided in accordance with sections 102(1), 363(b) and 365 of the Bankruptcy Code and Bankruptcy Rules 2002, 6004, 6006, 9007 and 9008, and no other or further notice of the Motion, the hearings, or the entry of this Sale Order is required.

F. A reasonable opportunity to object or to be heard regarding the relief requested in the Motion has been afforded to all interested persons and entities.

G. Fansteel has demonstrated good, sufficient and sound business purposes for the sale of the Shares pursuant to section 363(b) of the Bankruptcy Code outside of a plan of reorganization in that, among other things:

- a. an expeditious sale of the Shares will maximize the value of Fansteel's estate;
- b. absent a prompt sale, it is likely that the value of the Shares would precipitously decline;
- c. the Purchase Price is the highest and best offer that Fansteel has received for the Shares.

H. The sale of the Shares outside of a plan of reorganization pursuant to the Stock Purchase Agreement does not impermissibly restructure the rights of Fansteel's creditors.

I. Fansteel may sell and transfer the Shares free and clear of all liens, claims, interests, and encumbrances because, as required by section 363(f) of the Bankruptcy Code. All parties holding a lien on the Shares will be compelled to accept a money satisfaction of such liens in a legal or equitable proceeding pertaining thereto and such liens will attach to the

proceeds of the sale of the Shares consistent with the requirements of section 363(e) of the Bankruptcy Code.

J. The Stock Purchase Agreement was negotiated, proposed and entered into by the parties in good faith, at arms' length bargaining positions and without collusion. The Proposed Purchaser is not an "insider" or "affiliate" of the Debtors (as each such term is defined in the Bankruptcy Code). Neither Fansteel nor the Proposed Purchaser has engaged in any conduct that would prevent the application of section 363(m) of the Bankruptcy Code or cause the application of section 363(n) of the Bankruptcy Code to the proposed sale and the transactions contemplated by the Agreement. The Proposed Purchaser is a good faith buyer under section 363(m) of the Bankruptcy Code and, as such, is entitled to the protections afforded thereby.

K. Fansteel has extensively marketed the sale of the Shares and conducted the auction process in compliance with the Bidding Procedures Order and the requirements of applicable law.

L. Lincoln Partners LLP ("Lincoln Partners") is the only broker, agent or finder who brought about the Stock Purchase Agreement or the conveyance of the Shares to the Proposed Purchaser pursuant hereto. No fees are owed to any broker, agent or finder in connection therewith, except Lincoln Partners.

M. Effective as of the Closing (as defined in the Stock Purchase Agreement), the transfer of the Shares (i) is a legal, valid and effective transfer of property of Fansteel's estate to the Proposed Purchaser, as more particularly set forth in the Stock Purchase Agreement and (ii) vests the Proposed Purchaser with all right, title, and interest of Fansteel in and to the Shares being purchased by the Proposed Purchaser free and clear of all liens, claims and encumbrances under sections 363(f) and 105 of the Bankruptcy Code.

**NOW, THEREFORE, IT IS HEREBY ORDERED THAT:**

1. Part II of the Motion is granted.
2. All objections to the Motion or the relief requested therein that have not been withdrawn, waived, or settled, including all reservations of rights included therein that are not otherwise provided for by this Sale Order are overruled on the merits.
3. The terms and conditions of the Stock Purchase Agreement are hereby approved.
4. The sale of the Shares to the Proposed Purchaser pursuant to the Stock Purchase Agreement is hereby authorized under section 363(b) of the Bankruptcy Code and the entry of Fansteel into the Stock Purchase Agreement is hereby approved.
5. Fansteel is authorized and directed to execute and deliver, and empowered to fully perform under, consummate and implement, the Stock Purchase Agreement, together with all additional instruments and documents that may be reasonably necessary or desirable to implement such agreements, and to take all further actions as may be reasonably requested by the Proposed Purchaser for the purpose of assigning, transferring, granting, conveying and conferring to the Proposed Purchaser, or reducing to possession, any or all of the Shares, or as may be necessary or appropriate to the performance of the obligations of Fansteel under the Stock Purchase Agreement.
6. Pursuant to sections 105(a), 363(b) and 363(f) of the Bankruptcy Code, the Shares shall be transferred to the Proposed Purchaser, in accordance with the Stock Purchase Agreement, free and clear of all liens, claims, interests and encumbrances, except as otherwise expressly set forth in the Stock Purchase Agreement, with all such liens, claims, interests and encumbrances released, terminated and discharged as to the Shares and with all such liens, claims, interests and encumbrances attaching to the proceeds of the sale of the Shares, in the

order of their priority, with the same validity, force and effect which they now have as against the Shares. If the proposed sale fails to close for any reason, then such liens, claims, obligations, demands, guaranties, options, rights, contractual commitments, restrictions, interests, encumbrances and matters of any kind and nature shall continue against the Shares unaffected by this order.

7. Upon Closing, Fansteel shall pay Lincoln Partners pursuant to this Court's order entered February 25, 2002 authorizing the Debtors' employment and retention of Lincoln Partners.

8. Any entities who are presently, or on the Closing Date may be, in possession of some or all of the Shares are hereby directed to surrender possession of the Shares to Proposed Purchaser upon Closing.

9. The Stock Purchase Agreement and any related agreements, documents or other instruments may be modified, amended or supplemented by the parties thereto in accordance with the terms thereof without further order of the Court, provided that any such modification, amendment or supplement is not material.

10. The transfer of the Shares to the Proposed Purchaser, and the making, execution, delivery or recordation of any deed, termination or modification of any lease or other instrument of transfer, or assignment executed in connection with any of the transactions contemplated in connection with the Stock Purchase Agreement or to its schedules is not subject to taxation under any law imposing a stamp tax or similar tax in accordance with section 1146(c) of the Bankruptcy Code.

11. Fansteel, the Proposed Purchaser and/or any agent or representative of either of them are each hereby authorized and empowered to serve upon all filing and recording officers a

notice when filing or recording any instruments of transfer (including, without limitation, deeds, leases, and assignments, modifications and terminations of leases) in accordance with this order and the Stock Purchase Agreement to evidence and implement this paragraph of the order. All filing and recording officers are hereby directed to accept, file and record all instruments of transfer including, without limitation, deeds, leases, and assignments, modifications and terminations of leases (if any) to be filed and recorded pursuant to and in accordance with this order or the Stock Purchase Agreement and the various documents related thereto, without the payment of any such taxes.

12. This Court retains exclusive jurisdiction (i) to enforce and implement the terms and provisions of the Stock Purchase Agreement, all amendments thereto, and any waivers and consents thereunder, and of each of the agreements executed in connection therewith, (ii) to compel delivery of the Shares to the Proposed Purchaser, (iii) to resolve any disputes arising under or related to the Stock Purchase Agreement and related agreements, except as otherwise provided therein, and (iv) to interpret, implement and enforce the provisions of this Order.

Dated: October \_\_, 2002

---

The Honorable Joseph J. Farnan, Jr.  
United States District Court Judge

# Exhibit D

**STOCK PURCHASE AGREEMENT**

**by and among**

**FANSTEEL, INC.**

**as the Seller,**

**FANSTEEL SCHULZ PRODUCTS, INC.**

**as the Company**

**and**

**HANCOCK PARK ASSOCIATES,  
or its affiliate**

**as the Purchaser**

**Dated as of October 25, 2002**



## TABLE OF CONTENTS

ARTICLE I DEFINITIONS .....	1
ARTICLE II TRANSFER OF SHARES .....	2
Section 2.01    Transfer of Shares .....	2
Section 2.02    Purchase Price .....	2
Section 2.03    Purchase Price Adjustment. ....	2
Section 2.04    Application of Good Faith Deposit.....	3
ARTICLE III THE CLOSING.....	3
Section 3.01    Closing .....	3
Section 3.02    Deliveries at Closing.....	4
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF SELLER.....	4
Section 4.01    Organization.....	4
Section 4.02    Capital Stock.....	5
Section 4.03    Authority Relative to this Agreement.....	5
Section 4.04    Transaction in Capital Stock.....	5
Section 4.05    Consents and Approvals .....	5
Section 4.06    Title to Shares .....	5
Section 4.07    Assets .....	6
Section 4.08    Brokers .....	6
Section 4.09    Contracts .....	6
Section 4.10    Leases.....	6
Section 4.11    Labor and Employment.....	6
Section 4.12    Employee Benefits .....	6
Section 4.13    Accounts Receivable.....	7
Section 4.14    Financial Statements .....	8
Section 4.15    Inventory .....	8
Section 4.16    Legal Compliance .....	8
Section 4.17    Environmental Matters.....	8
Section 4.18    Tax Matters .....	9

	<u>Page</u>
ARTICLE V REPRESENTATIONS AND WARRANTIES OF PROPOSED PURCHASER.....	11
Section 5.01    Organization.....	11
Section 5.02    Authority Relative to this Agreement.....	11
Section 5.03    Consents and Approvals .....	11
Section 5.04    No Violations .....	11
Section 5.05    Brokers.....	12
Section 5.06    Financing.....	12
Section 5.07    Access; No Knowledge of Violations.....	12
ARTICLE VI COVENANTS .....	12
Section 6.01    Action by the Seller Pending the Closing.....	12
Section 6.02    Section 363 Order .....	13
Section 6.03    Access and Information .....	14
Section 6.04    Additional Matters .....	14
Section 6.05    Further Assurances.....	14
Section 6.06    Employees.....	15
ARTICLE VII CONDITIONS PRECEDENT.....	15
Section 7.01    Mutual Conditions Precedent.....	15
Section 7.02    Conditions Precedent to Obligation of the Seller .....	15
Section 7.03    Conditions Precedent to Obligation of the Proposed Purchaser.....	16
ARTICLE VIII OTHER OFFERS.....	17
Section 8.01    Submission for Court Approval.....	17
Section 8.02    Competitive Bidding.....	17
Section 8.03    Break-Up Fee and Expense Reimbursement .....	17
ARTICLE IX TERMINATION.....	17
Section 9.01    Termination.....	17
Section 9.02    Effect of Termination and Abandonment .....	18

	<u>Page</u>
ARTICLE X GENERAL PROVISIONS.....	18
Section 10.01    No Survival of Representations and Warranties .....	18
Section 10.02    Taxes .....	18
Section 10.03    Costs and Expenses.....	18
Section 10.04    Post-Closing Obligations .....	18
Section 10.05    Notices .....	19
Section 10.06    Publicity .....	20
Section 10.07    Descriptive Headings .....	20
Section 10.08    Entire Agreement; Assignment.....	20
Section 10.09    Governing Law .....	20
Section 10.10    Amendment.....	20
Section 10.11    Waiver.....	21
Section 10.12    Counterparts; Effectiveness .....	21
Section 10.13    Severability; Validity; Parties in Interest.....	21

#### ANNEX I     Index of Defined Terms

#### EXHIBITS

##### A – Bidding Procedures

#### SCHEDULES

Schedule 4.05	Consents and Approvals
Schedule 4.07	Assets
Schedule 4.09	Contracts
Schedule 4.10	Leases
Schedule 4.11	Labor and Employment
Schedule 4.12	Employee Benefits
Schedule 4.14	Financial Statements
Schedule 4.16	Legal Compliance
Schedule 4.17	Environmental Matters
Schedule 4.18	Tax Matters

## STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT, dated as of October 25, 2002 (the "Agreement"), is made by and between Fansteel, Inc., a Delaware corporation (the "Seller"), Fansteel Schulz Products, Inc. (the "Company"), and Hancock Park Associates or its affiliate (the "Proposed Purchaser").

WHEREAS, on January 15, 2002, the Seller and certain of its domestic wholly-owned subsidiaries (the "Debtors"), including the Company each filed a jointly administered voluntary petition for relief under chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.* (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware under case number 01-10109, which was transferred to the United States District Court for the District Court of Delaware (the "Court") on January 22, 2002 and assigned case number: 02-10109 (the "Bankruptcy Case"), and continue to manage their properties as debtors and debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code;

WHEREAS, the Company is engaged principally in the business of machining and assembling high precision aerospace components (the "Business");

WHEREAS, the Proposed Purchaser desires to purchase from the Seller and the Seller desires to sell to the Proposed Purchaser, all of the issued and outstanding shares (the "Shares") of capital stock of the Company in accordance with the provisions set forth herein;

WHEREAS, the Shares would be sold pursuant to the terms of this Agreement and an order of the Court under Section 363 of the Bankruptcy Code (the "Section 363 Order"); and

WHEREAS, concurrently with the execution and delivery of this Agreement, the Proposed Purchaser has delivered to the Seller immediately available funds by confirmed wire transfer to the escrow account heretofore designated by the Seller in the amount of \$235,000 (the "Good Faith Deposit").

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants, and agreements set forth herein, the parties hereto agree as follows:

### ARTICLE I

#### DEFINITIONS

The defined terms in this Agreement are referenced in Annex I to sections containing the definitions. All definitions are to be equally applicable to the singular, plural, masculine, feminine and neuter forms of the terms herein defined.

## ARTICLE II

### TRANSFER OF SHARES

Section 2.01 Transfer of Shares. Subject to the terms and conditions set forth in this Agreement and on the basis of and in reliance upon the covenants, agreements, representations and warranties set forth herein, at the Closing, the Seller will sell and transfer the Shares to the Proposed Purchaser and the Proposed Purchaser will purchase the Shares from the Seller.

Section 2.02 Purchase Price. In consideration for the Shares, the Proposed Purchaser shall pay to the Seller an amount equal to \$2.35 million (the "Purchase Price").

Section 2.03 Purchase Price Adjustment.

(a) Preparation and Delivery of Closing Statement. The Seller shall prepare and deliver to the Proposed Purchaser not later than 30 days after the Closing a statement showing the amount of the Company's accounts receivable (net of normal reserves for bad debts), inventory and accounts payable of the Closing Date (the "Closing Statement").\* The items in the Closing Statement shall be computed in accordance with accounting principles as consistently applied by the Company in the preparation of the Financial Statements and shall be certified by the Seller's chief financial officer. The Proposed Purchaser shall cooperate with the Seller and its accountants in the preparation of the Closing Statement.

(b) Review of Closing Statement. Within 30 days following the Proposed Purchaser's receipt of the Closing Statement, the Proposed Purchaser shall notify the Seller in writing of any objections that it may have to the Closing Statement, stating in reasonable detail the basis for any such objection (an "Objection Notice"); provided that the only bases for objection shall be (i) non-compliance with the standards set forth in Section 2.03(a) for the preparation of the Closing Statement and (ii) computational errors. If the Proposed Purchaser fails to deliver an Objection Notice to the Seller within such 30-day period, it will be deemed to have concurred with the Closing Statement.

(c) Dispute Resolution. If the Proposed Purchaser timely delivers an Objection Notice to the Seller in accordance with Section 2.03(b), the Seller and the Proposed Purchaser shall promptly consult with each other in good faith and exercise reasonable efforts to attempt to resolve differences in their respective analyses of the Closing Statement within 20 days (or such longer period as the parties shall mutually agree in writing) after the Proposed Purchaser delivers the Objection Notice. Any matter not specifically referenced in the Objection Notice shall be conclusively deemed to have been agreed upon by the parties. If the parties are unable to resolve their differences within such 20-day period (or longer period as the parties shall mutually agree in writing), the matter shall be promptly referred to Deloitte & Touche (the "Independent Accounting Firm") which shall make its own determination of the matters in dispute within 30 days after the matter is referred to it on the basis of the standards set forth

---

\* Note – This will include pre-petition payables and does not include cash or cash equivalents.

above in Section 2.03(a) and Section 2.03(b). The determination of the Independent Accounting Firm will be final, binding and conclusive on the parties.

(d) Fees and Expenses. Each party shall bear its own fees and expenses incurred in performing services pursuant to this Section. If the Independent Accounting Firm is used to resolve differences between the Seller and the Proposed Purchaser in accordance with Section 2.03, the Seller and the Proposed Purchaser will each bear 50% of all fees and expenses, including any retainers, of the Independent Accounting Firm.

(e) Payment of Adjustment. Subject to the terms and conditions of this Agreement, the following adjustments and payments shall be made:

(i) If the sum of accounts receivable and inventory minus the accounts payable and accrued liabilities (the "Closing Working Capital") set forth on the Closing Statement, or as determined by the Independent Accounting Firm, is less than \$1,400,000, the difference shall be paid by the Seller to the Proposed Purchaser.

(ii) If the Closing Working Capital as set forth on the Closing Statement, or as determined by the Independent Accounting Firm, is more than \$1,550,000, the excess shall be paid by the Proposed Purchaser to the Seller.

(iii) Any amount owed pursuant to clauses (i) and (ii) above shall be paid to the applicable party within five Business Days after its final determination by the parties or the Independent Accounting Firm (or if no Objection Notice is delivered, within 30 days following the Proposed Purchaser's receipt of the Closing Statement) together with interest on said amount at the prime rate as published by The Wall Street Journal on the Closing Date, from and including the date of Closing Date, but excluding, the date of the payment.

Section 2.04 Application of Good Faith Deposit. The Good Faith Deposit shall be governed by an escrow agreement, of even date herewith, between the Seller and the Proposed Purchaser (the "Escrow Agreement"), which provides, among other things, that the Good Faith Deposit shall be applied toward the Purchase Price at Closing. Unless otherwise agreed by the Proposed Purchaser and the Seller and approved by the Court, the Good Faith Deposit shall be returned to the Proposed Purchaser only in accordance with Section 9.02 hereof. In the absence of such agreement and approval, if the agreement is otherwise terminated, the Good Faith Deposit shall become the property of the Seller.

### ARTICLE III

#### THE CLOSING

Section 3.01 Closing. The consummation of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Schulte Roth & Zabel LLP, 919 Third Avenue, New York, NY, at 10:00 a.m. on the first Business Day (defined below) after the fulfillment of the conditions described in Article VII, or such other time, date and place as shall be agreed upon by the parties (the date of the Closing being herein referred to as the "Closing Date"). "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banks in New York, New York are authorized or obligated by law or executive order to close.

Section 3.02 Deliveries at Closing.

- (a) At the Closing, the Seller shall deliver to the Proposed Purchaser:
- (i) certificates representing the Shares, duly endorsed (or accompanied by duly executed stock powers) for transfer to Buyer; and
  - (ii) a certificate executed by the Seller representing and warranting to the Proposed Purchaser that each of the Seller's representations and warranties in this Agreement are true and correct in all material respects on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date, except that any such representations and warranties that are given as of a particular date and relate solely to a particular date or period shall be true and correct in all material respects as of such date or period.
- (b) At the Closing, the Proposed Purchaser shall deliver to the Seller
- (i) the Purchase Price (less the Good Faith Deposit) by wire transfer of immediately available funds to an account or accounts designated by the Seller; and
  - (ii) a certificate executed by the Proposed Purchaser representing and warranting to the Seller that each of the Proposed Purchaser's representations and warranties in this Agreement are true and correct in all material respects on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date, except that any such representations and warranties that are given as of a particular date and relate solely to a particular date or period shall be true and correct in all material respects as of such date or period.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

Except as otherwise set forth in this Article IV, neither the Seller nor the Company makes any representation or warranty as to the Company or the Business. Without limiting the generality of the foregoing, the Seller does not make any representation or warranty to the Proposed Purchaser with respect to any projections, estimates or budgets heretofore delivered to or made available to the Proposed Purchaser of future revenues, expenses or expenditures, future results of operations (or any component thereof), future cash flows or future financial condition (or any component thereof) of the Business. The Seller, with respect to the following representations and warranties relating to it, and the Company, with respect to the following representations and warranties relating to it, represent and warrant to the Proposed Purchaser as follows:

Section 4.01 Organization. The Seller is a corporation validly existing and in good standing under the laws of the jurisdiction of its incorporation and, subject to the Court's approval, has the corporate power and authority to execute and deliver this Agreement and to

perform its obligations hereunder. The Company is a corporation validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the corporate power and authority and all necessary governmental approvals to own, lease, and operate its properties and to carry on the Business as it is now being conducted or presently proposed to be conducted. The Company is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the operations of its business are conducted, except where the failure to be so qualified would not, in the aggregate, have a material adverse effect on the operations and financial condition of the Business of the Company taken as a whole (a "Material Adverse Effect").

Section 4.02 Capital Stock. The authorized capital stock of the Company consists of 1,000 shares of common stock, par value \$.01 per share, of which 100 shares are issued and outstanding. All of the issued and outstanding shares of the Company have been duly authorized and validly issued, are fully paid and nonassessable, are owned of record and beneficially by the Seller free and clear of all liens and adverse claims of any kind, other than the lien of Congress Financial Corporation, and were offered, issued, sold and delivered by the Company in compliance with all applicable state and federal laws concerning the offering, sale or issuance of securities. None of such shares were issued in violation of the preemptive rights of any past or present stockholder, whether contractual or statutory.

Section 4.03 Authority Relative to this Agreement. Subject to the entry and effectiveness of the Section 363 Order, (i) this Agreement has been duly and validly authorized, executed and delivered by the Seller and (ii) (assuming this Agreement constitutes a valid and binding obligation of the Proposed Purchaser) constitutes a valid and binding agreement of the Seller, enforceable against the Seller in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium, and other laws affecting creditors' rights generally from time to time in effect and to general equitable principles.

Section 4.04 Transaction in Capital Stock. No option, warrant, call, conversion right or commitment of any kind exists which obligates the Company to issue any of its authorized but unissued capital stock. The Company has no obligation (contingent or otherwise) to purchase, redeem or otherwise acquire any of its equity securities or any interests therein or to pay any dividend or make any distribution in respect thereof. No shares of capital stock of the Company were issued pursuant to or upon the exercise of any awards, grants, or bonuses, whether of stock or of options or other rights.

Section 4.05 Consents and Approvals. Except as set forth on Schedule 4.05, no consent, approval, or authorization of, or declaration, filing, or registration with, any United States federal or state governmental or regulatory authority is required to be made or obtained by the Seller or the Company in connection with the execution, delivery, and performance by the Seller of its obligations under this Agreement, except (a) for consents, approvals, or authorizations of, or declarations or filings with, the Court and (b) for consents, approvals, authorizations, declarations, filings, or registrations, which, if not obtained, would, in the aggregate, not have a Material Adverse Effect.

Section 4.06 Title to Shares. Upon entry and effectiveness of, and in accordance with the terms of, the Section 363 Order and the Bankruptcy Code, the Seller (i) shall



have the power and right to sell, assign, transfer and deliver the Shares to the Proposed Purchaser and (ii) on the Closing Date shall sell, assign, transfer and deliver the Shares free and clear of all liens, claims, encumbrances and security interests.

Section 4.07 Assets. (a) Schedule 4.07 of this Agreement contains a true, correct and complete list (including, without limitation, legal descriptions) of all real property owned by the Company (together with all buildings, improvements and structures thereon and all easements, rights of way, and appurtenances relating thereto, the "Owned Real Property") and all items of personal property with a value in excess of \$100,000 the "Personal Property").

Section 4.08 Brokers. No person, other than Lincoln Partners L.L.C., is entitled to any brokerage, financial advisory, finder's or similar fee or commission payable by the Seller in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Seller.

Section 4.09 Contracts. Schedules 4.09 and 4.19 of this Agreement contain a complete and accurate list of all agreements, contracts, commitments, arrangements and understandings, written or oral, including all amendments and supplements thereto, of the Company (the "Contracts"), to which the Company is a party or is bound, or by which any of its assets are bound. True and complete copies of the Contracts (or written summaries of the terms of any such oral Contract) have been heretofore made available to the Proposed Purchaser.

Section 4.10 Leases. Schedule 4.10 of this Agreement contains a complete and accurate list of all unexpired leases to which the Company is a party ("Leases"). True and complete copies of each Lease have been heretofore made available to the Proposed Purchaser.

Section 4.11 Labor and Employment. (a) Except as set forth on Schedule 4.11, (i) the Company is not a party to or subject to any collective bargaining or other agreement with a labor union or similar organization, covering or applicable to any employees of the Business and (ii) there is no employment or consulting agreement that pertains to the Business.

(b) Except as described on Schedule 4.11, there are no proceedings pending or, to the Seller's best knowledge, threatened, before the National Labor Relations Board.

(c) The Business has not experienced a work stoppage or other material labor disturbance within the past three years. The Company has not incurred any liability under the Worker Adjustment and Retraining Notification Act or similar state law.

Section 4.12 Employee Benefits. (a) Schedule 4.12 identifies each pension plan ("Pension Plan"), as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and any welfare plan ("Welfare Plan") as defined in Section 3(1) of ERISA maintained or contributed to by the Company (collectively, "Company Plans").

(b) Except as set forth on Schedule 4.12, no Company Plan or a pension plan maintained or contributed to by an organization which is a member of a controlled group of organizations within the meanings of Sections 414(b), (c), (m) or (o) of the Internal Revenue Code of 1986, as amended (the "Code") (and "ERISA Affiliate") is subject to Title IV

of ERISA. The Seller's purposes for engaging in the transactions contemplated hereby is not for the evasion of liability under Title IV of ERISA.

(c) There are no written or filed claims or grievances outstanding against the Company under any Company Plan other than in the normal course of business.

(d) With respect to each Company Plan, (i) such Company Plan has been maintained in material compliance with ERISA, the Code, the terms of such Company Plan and other applicable laws, (ii) a favorable determination letter has been obtained from the Internal Revenue Service, and a copy thereof delivered to the Proposed Purchaser, for each Pension Plan that is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA and that is intended to be qualified within the meaning of Section 401(a) of the Code, and since such determination letter, to the Seller's knowledge, no event has occurred that would disqualify such Pension Plan; and (iii) there has been no "prohibited transaction" within the meaning of Section 4975(c) of the Code or Section 406 of ERISA involving the assets of any Company Plan. Except as set forth on Schedule 4.12 hereto, neither the Company nor any ERISA Affiliate is or was required to contribute during any period within the preceding six years to any "multiemployer plan" (as defined in Section 3(37) of ERISA).

(e) The Seller has previously delivered to the Proposed Purchaser with respect to each Company Plan, true and correct copies of the following, to the extent applicable (i) each Company Plan and any trust agreements related thereto; (ii) the most recent annual report (Form 5500 Series); and (iii) the most recent summary plan description, as described in Section 102(a)(1) of ERISA.

(f) Except as required by Section 4980B of the Code or as set forth in Schedule 4.12, no Company Plan or other arrangement provides medical or death benefits (whether or not insured) with respect to current or former employees of the Company beyond their retirement or other termination of employment. Any continuation coverage provided under any welfare benefit plans complies with Section 4980B of the Code and is at the expense of the participant or beneficiary.

(g) Except as set forth in Schedule 4.12, no Company Plan or agreement, program, policy or other arrangement by or to which the Company is a party, is bound or is otherwise liable, by its terms or in effect would reasonably be expected to require any payment or transfer of money, property or other consideration on account of or in connection with the sale, lease, exchange or transfer of either any shares of stock or any of the assets of the Company (whether or not any such payment would constitute a "parachute or "excess parachute payment" within the meaning of Section 280G of the Code).

**Section 4.13 Accounts Receivable.** All accounts receivable reflected on the balance sheet of the Business as of June 30, 2002 and all accounts receivable arising subsequent to the date of such balance sheet, have, in all material respects, arisen in the ordinary course of business, and, to the Seller's knowledge, represent valid obligations to the Company, without any written notice of any material claim of offset against the Company having been given to the Company.

Section 4.14 Financial Statements. Attached hereto as Schedule 4.14 are the following documents (collectively, the "Financial Statements"): (i) the unaudited balance sheet and statements of income and cash flow for the fiscal year ended December 31, 2001 and (ii) the unaudited balance sheet and statement of income and cash flow for the month ended June 30, 2002. The Financial Statements, including the related notes thereto, (a) are derived from the books and records of the Company, in all material respects, (b) have been prepared in accordance with accounting principles consistently applied throughout the periods covered thereby and (c) fairly present in all material respects the results of operations of the Business for the periods covered thereby, subject, in the case of interim Financial Statements, to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse).

Section 4.15 Inventory. The inventory of the Business consists, in all material respects, of a quality and quantity usable and salable in the ordinary course of business, except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Financial Statements as of the Closing Date.

Section 4.16 Legal Compliance. (a) Except as set forth on Schedule 4.16, the Company is not in violation of any provision of its organizational documents or any other instrument, permits, licenses, approvals and authorizations by or of governmental authorities or third parties (collectively "Permits"), decree or order to which it is a party or by which it or any of its assets are bound, except as could not reasonably be expected to have a Material Adverse Effect.

(b) To the knowledge of the Seller, except as set forth in Schedule 4.16, the Company is currently operating the Business in conformity with all applicable laws, ordinances, regulations and directives, except as could not reasonably be expected to have a Material Adverse Effect.

(c) The Company has in force all Permits necessary to conduct the Business as presently conducted and own its assets, except as could not reasonably be expected to have a Material Adverse Effect. The Company is not, nor has it received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default) under any Permit, except as could not reasonably be expected to have a Material Adverse Effect.

Section 4.17 Environmental Matters. Except as set forth on Schedule 4.16 and Schedule 4.17 attached hereto: (i) to the Seller's knowledge, the operations of the Business are in compliance with all Environmental Laws, other than Environmental Laws the non-compliance with which, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect; (ii) to the Seller's knowledge, there has been no Release at any of the Owned Real Property or the real property which is the subject of the Leases, or at any disposal or treatment facility which received Hazardous Materials generated by the Company or any predecessor in interest which could reasonably be expected to have a Material Adverse Effect; and (iii) no Environmental Action has been threatened, asserted or is pending against the Company, or to the Seller's knowledge, any predecessor in interest, which could reasonably be expected to have a Material Adverse Effect.

For the purpose of this Agreement, the following terms shall be defined as follows:

"Environmental Actions" means any complaint, summons, citation, notice, directive, order, litigation, judicial or administrative proceeding or judgment from any governmental authority involving violations of Environmental Laws or Releases of Hazardous Materials (i) from the Business; or (ii) onto any facilities which received Hazardous Materials generated by the Business.

"Environmental Laws" means the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601, et seq.), the Hazardous Materials Transportation Act (49 U.S.C. § 1801, et seq.), the Resource Conservation and Recovery Act (42 U.S.C. § 6901, et seq.), the Federal Clean Water Act (33 U.S.C. § 1251 et seq.), the Clean Air Act (42 U.S.C. § 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. § 2601 et seq.) and the Occupational Safety and Health Act (29 U.S.C. § 651 et seq.), as such laws may be amended or otherwise modified from time to time, and any other present or future federal, state, local or foreign statute, ordinance, rule, regulation, order, judgment, decree, permit, license or other binding determination of any governmental authority imposing liability or establishing standards of conduct for protection of the environment.

"Hazardous Materials" means (i) any element, compound or chemical that is defined, listed or otherwise classified as a contaminant, pollutant, toxic pollutant, toxic or hazardous substance, extremely hazardous substance or chemical, hazardous waste or special waste under Environmental Laws; (ii) petroleum and its refined products; (iii) polychlorinated biphenyls; (iv) any substance exhibiting a hazardous waste characteristic, including but not limited to, corrosivity, ignitability, toxicity or reactivity as well as any radioactive or explosive materials; and (v) any raw materials, building components (including, but not limited to, asbestos-containing materials) and manufactured products containing hazardous substances listed or classified as such under Environmental Laws.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, seeping, dumping or disposing of any Hazardous Material (including the abandonment or discarding of barrels, containers and other closed receptacles containing any Hazardous Material) into the indoor or outdoor environment, including ambient air, soil, surface or ground water.

#### Section 4.18 Tax Matters.

(a) The Debtors have timely paid (or made adequate reserves for the payment of) all Taxes, which have become due and payable in respect of any taxable period ending prior to the Closing Date, the non-payment of which would result in any lien (other than a statutory lien for Taxes not yet due and payable) on the Shares or any asset of the Company.

(b) The Debtors have established in their books and records, in accordance with Generally Accepted Accounting Principles ("GAAP"), applied on a basis consistent with that of preceding periods, adequate reserves for the payment of all Tax liabilities, assessments, interest and penalties which arise from, or with respect to, the Debtors and are

incurred in, or attributable to, any taxable period ending prior to the Closing Date but have not yet become due, the non-payment of which would result in a lien (other than a statutory lien for Taxes not yet due and payable) on the Shares or any asset of the Company.

(c) Schedule 4.18 contains an accurate list of (i) all jurisdictions to which any material amount of Tax is payable by or with respect to the Company and (ii) all Tax Returns that are required to be filed in any such jurisdiction on which material amounts of Taxes are required to be shown by or with respect to the Company.

(d) Except as set forth in Schedule 4.18, (i) each Debtor has filed on a timely basis with the appropriate Tax authorities all Tax Returns on which material amounts of taxes are required to be shown by the applicable laws of any jurisdiction, (ii) where any such Tax Return was required to be filed by another taxpayer by reason of a Tax consolidation regime that included the Debtor, such Tax Return has been filed and (iii) all such returns insofar as they relate to the Debtors are true, correct and complete in all material respects.

(e) Schedule 4.18 contains: (i) a complete description of all the material Tax-related litigation, proceedings or claims pending against any Debtor; (ii) the Tax amounts claimed in connection with all such Tax-related litigation, proceedings or claims.

(f) Schedule 4.18 contains a complete and accurate description of any and all extensions of the statute of limitations in respect of any Tax applicable to the Company.

(g) Except as set forth in Schedule 4.18, no Debtor has at any time prior to the Closing been part of a consolidated or affiliated group of companies in any Taxing jurisdiction that included any corporation other than other Debtors (or predecessors of other Debtors), and the Debtors (i) have no liabilities to any affiliate or prior affiliate as a result of a degrouping of an affiliated group of companies and (ii) will have no liabilities as a result of having been a member of any such group in respect of any taxable period ending prior to the Closing Date. No party has any claim against the Company in connection with the allocation of or an agreement to allocate corporate income tax or recovering corporate income Tax by the taxpayer from other entities included in the same consolidated, combined or unitary group in which the Company has been included.

(h) Except as set forth on Schedule 4.18, no exemptions from Tax have been granted or claimed by the Company in respect of share exchanges, business mergers or internal reorganizations during the current year and all preceding years.

(i) Since January 1, 1998, no shares of capital stock or other equity interests of the Company have been issued to (or nominally sold to) any Person as compensation for services (or in a transaction which can be recharacterized as compensation for services).

(j) The Company does not have any obligation given in exchange for a tax holiday or tax concession in any jurisdiction which obligation has not been satisfied that will continue to bind the Company after the Closing Date.

For the purposes of this Agreement, the following terms shall be defined as follows:

"Tax" means any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, *ad valorem*, franchise, capital, paid-up capital, profits, green-mail, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit, tax, custom, duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever together with any interest or any penalty, addition to tax or additional amount imposed by any governmental authority (domestic or foreign) responsible for the imposition of any such tax.

"Tax Returns" means any net report, return, declaration, claim for refund or statement of other information with respect to Taxes, including any schedules, attachment or amendment thereto.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES OF PROPOSED PURCHASER

The Proposed Purchaser represents and warrants to the Seller as follows:

Section 5.01 Organization. The Proposed Purchaser is a corporation validly existing and in good standing under the laws of its jurisdiction of incorporation and has the corporate power and authority to execute and deliver this agreement and perform its obligations hereunder.

Section 5.02 Authority Relative to this Agreement. Subject to the entry and effectiveness of the Section 363 Order, (i) this Agreement has been duly and validly authorized, executed and delivered by the Proposed Purchaser and (ii) (assuming this Agreement constitutes a valid and binding obligation of the Seller) constitutes a valid and binding agreement of the Proposed Purchaser, enforceable against the Proposed Purchaser in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium, and other laws affecting creditors' rights generally from time to time in effect and to general equitable principles.

Section 5.03 Consents and Approvals. No consent, approval, or authorization of, or declaration, filing or registration with, any United States federal or state governmental or regulatory authority is required to be made or obtained by the Proposed Purchaser in connection with the execution, delivery, and performance by the Proposed Purchaser, except (a) for consents, approvals, or authorizations of, or declarations or filings with, the Court.

Section 5.04 No Violations. Neither the execution, delivery, or performance of this Agreement by the Proposed Purchaser, nor the consummation by the Proposed Purchaser of the transactions contemplated hereby, nor compliance by the Proposed Purchaser with any of the provisions hereof, will (a) conflict with or result in any breach of any provisions of the articles or certificate of incorporation, as the case may be, or bylaws of the Proposed Purchaser, (b) result in a violation or breach of, or constitute (with or without due notice or lapse of time) a default under any of the terms, conditions, or provisions of any note, bond, mortgage, deed of trust, security interest, indenture, license, contract, agreement, plan, or other instrument or obligation

to which the Proposed Purchaser is a party or by which the Proposed Purchaser or the Proposed Purchaser's properties or assets may be bound or affected, or (c) violate any order, writ, injunction, decree, statute, rule, or regulation applicable to the Proposed Purchaser or the Proposed Purchaser's properties or assets, except in the case of clauses (b) and (c) for violations, breaches or defaults, that would not, in the aggregate, have a material adverse effect on the Proposed Purchaser.

Section 5.05 Brokers. No person is entitled to any brokerage, financial advisory, finder's or similar fee or commission payable by the Proposed Purchaser in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Proposed Purchaser.

Section 5.06 Financing. The Proposed Purchaser has and, on the Closing Date, the Proposed Purchaser will have funds sufficient to deliver the Purchase Price to the Seller in accordance with the terms of this Agreement.

Section 5.07 Access; No Knowledge of Violations.

(a) The Proposed Purchaser confirms that, to its knowledge, it has received all the information it considers necessary or appropriate for deciding whether to purchase the Shares, including but not limited to the information contained in this Agreement and the information obtained through the Proposed Purchaser's due diligence.

(b) The Proposed Purchaser represents that it has had an opportunity to ask questions and receive answers from the Seller and its advisors regarding the financial condition of the Company, acknowledges that it has been provided reasonable and sufficient access to the books and records of the Company, facilities and management personnel of the Company and that it has reviewed, to the extent it deemed necessary or appropriate, the Contracts and all other books, records, files and other documents of the Company.

(c) As of the date of this Agreement, the Proposed Purchaser has no knowledge or reason to believe of any breach of a representation or warranty of the Seller of this Agreement or of any material errors or omissions as of the date hereof.

## ARTICLE VI

### COVENANTS

Section 6.01 Action by the Seller Pending the Closing. Except as reasonable and necessary to the continued prosecution of its chapter 11 reorganization case, or as otherwise required by the Bankruptcy Code, between the date of execution of this Agreement and the Closing, neither the Seller nor the Company shall take any action inconsistent with the transactions contemplated hereby and the Company and the Seller agreed that:

(a) the Company shall conduct the Business in the ordinary course and in the same manner as heretofore conducted;

(b) the Company shall maintain the Business substantially as heretofore in effect and will maintain, or cause to be maintained, insurance on the Business substantially as heretofore in effect;

(c) the Company shall not (i) increase either the base pay, commission rate, bonus or other compensation to any of the Company's employees or agents and no such increase will be announced, instituted or paid (except for normal merit increases and earned non-discretionary bonuses) and (ii) hire or retain any employee (other than in the ordinary course of business, employees whose annual compensation is expected to be less than \$100,000 per annum) or any consultant;

(d) the Company shall not enter into any material contract or commitment that has a term in excess of 90 days and that cannot be terminated without material penalty on up to 90 days' notice;

(e) the Company shall not terminate or amend the Contracts;

(f) they will use commercially reasonable efforts to preserve intact the Business, reputation and existing relationships and goodwill of the Business with its vendors, customers, sponsors and other third parties involved in the Business;

(g) the Company will not sell, transfer, license, or otherwise dispose of, or create or permit to become effective any lien or encumbrance on, any of the assets of the Company, nor permit, agree or commit to do any of the foregoing; provided that the Proposed Purchaser acknowledges that a certain coordinate measuring machine (Ellison serial number 1050805) with seven storage cabinets is not owned by the Company and will be removed from the Company's premises prior to the Closing;

(h) upon receipt of actual knowledge thereof, they will promptly advise the Proposed Purchaser of the commencement or threat against the Company or the Business of any material litigation relating to or affecting the Business or the transactions contemplated by this Agreement;

(i) neither of them nor any of their agents will take any action which will result in any of the representations in Section 4 becoming untrue;

(j) they will not change the Company's tax or accounting practice or policy except as may be required;

(k) they will cause all intercompany debts and obligations between the Seller and the Company to be settled and discharged prior to the Closing; and

(l) the Company will not assume or reject any contract without the Purchaser's consent.

Section 6.02 Section 363 Order. (a) Prior to Closing, the sale of the Shares to the Proposed Purchaser pursuant to this Agreement and the other transactions contemplated by this Agreement shall have been approved by entry of the Section 363 Order by the Court. The



Proposed Purchaser and the Seller agree to use reasonable efforts to cause the Court to enter the Section 363 Order.

(b) For purposes of this Agreement, a "Final Order" means an order or a judgment entered by the Court (i) that has not been reversed, stayed, modified, amended or vacated, (ii) as to which the time for filing a notice of appeal, a petition for review or a motion for reargument or rehearing has expired.

(c) The Seller covenants and agrees that if the Section 363 Order is entered, the terms of any plan submitted by the Seller to the Court for confirmation shall not conflict with, supercede, abrogate, nullify, modify or restrict the terms of this Agreement and the rights of the Proposed Purchaser hereunder, or in any way prevent or interfere with the consummation or performance of the transactions contemplated by this Agreement including any transaction that is contemplated by or approved pursuant to the Section 363 Order.

(d) If the Section 363 Order or any other orders of the Court relating to this Agreement shall be appealed by any person (as defined in Section 101(41) of the Bankruptcy Code) or petition for certiorari or motion for rehearing or reargument shall be filed with respect thereto, the Seller agrees to take all steps as may be reasonable and appropriate to defend against such appeal, petition or motion and the Proposed Purchaser agrees to cooperate in such efforts and each party hereto agrees to use its reasonable efforts to obtain an expedited resolution of such appeal; provided, however, that nothing herein shall preclude the parties hereto from consummating the transactions contemplated herein if the Section 363 Order shall have been entered and has not been stayed.

**Section 6.03 Access and Information.** The Seller and the Company shall afford to the Proposed Purchaser and to the Proposed Purchaser's financial advisors, legal counsel, accountants, consultants, financing sources, and other authorized representatives reasonable access during normal business hours throughout the period prior to the Closing Date to all books, records, properties, and personnel of the Seller or the Company that pertain to the Company and, during such period, shall furnish as promptly as practicable to the Proposed Purchaser any and all such information as the Proposed Purchaser reasonably may request pertaining to the Company.

**Section 6.04 Additional Matters.** Subject to the terms and conditions of this Agreement, each of the parties hereto agrees to use all commercially reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper, or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including using all commercially reasonable efforts to obtain all necessary waivers, consents, and approvals required under this Agreement.

**Section 6.05 Further Assurances.** In addition to the provisions of this Agreement, from time to time after the Closing Date, the Seller and the Proposed Purchaser will use all commercially reasonable best efforts to execute and deliver such other instruments of conveyance, transfer or assumption, as the case may be, and take such other actions as may be reasonably requested to implement more effectively, the conveyance and transfer of the Shares to the Proposed Purchaser.

Section 6.06 Employees. (a) Immediately after the Closing, Proposed Purchaser shall cause the Company to continue to employ the employees of the Company ("the Employees") on terms that provide cash compensation equal to or exceeding the cash compensation received by each such Employee immediately prior to the Closing Date. Nothing contained herein shall be construed to limit or affect any right of Proposed Purchaser to terminate any Employee at any time or for any reason.

(b) Benefit Plans. Effective as of the Closing Date, the Employees shall cease participation in each of the Company Plans maintained by the Seller, including, without limitation, any defined contribution plans, as defined in Section 414(i) of the Code. The Proposed Purchaser shall cause the Company, in respect of the Employees and their spouses, dependents and beneficiaries, to maintain employee benefits plans and programs without any preexisting condition or waiting period requirements other than those applicable to a particular individual under a plan of the Company as in existence immediately prior to the Closing Date. The Proposed Purchaser agrees that each Employee will receive credit under all such benefit plans of the Proposed Purchaser for all of such Employee's years of service with the Seller for all purposes for which service is a factor under such plans and to the extent permissible under applicable law, count any deductibles satisfied by an Employee prior to the Closing Date.

(c) Employment Termination Liabilities. The Proposed Purchaser shall pay and be liable for any obligation or liability that may arise from the termination of the employment of the Employees by the Proposed Purchaser after the Closing Date, including, without limitation, any liabilities in connection with the "employment loss" of any Employee under the Worker Adjustment and Retraining Notification Act, 29 U.S.C. §§ 2101-2109, and the related regulations.

## ARTICLE VII

### CONDITIONS PRECEDENT

Section 7.01 Mutual Conditions Precedent. The respective obligations of each party to effect the transactions contemplated by this Agreement shall be subject to the satisfaction of the following condition: the Section 363 Order, in form and substance consistent with this Agreement, shall have been entered by the Court and shall have become a Final Order.

Section 7.02 Conditions Precedent to Obligation of the Seller. The obligation of the Seller to effect the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver at or prior to the Closing Date of the following additional conditions:

(a) the Proposed Purchaser shall have performed in all material respects its obligations under this Agreement required to be performed by the Proposed Purchaser at or prior to the Closing Date including, without limitation, payment of the Purchase Price; and

(b) the representations and warranties of the Proposed Purchaser contained in this Agreement shall be true and correct in all material respects as of the Closing Date as if made at and as of such date, except as otherwise contemplated by this Agreement.

Section 7.03 Conditions Precedent to Obligation of the Proposed Purchaser.

The obligation of the Proposed Purchaser to effect the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver at or prior to the Closing Date of the following additional conditions:

(a) the Seller shall have performed in all material respects its obligations under this Agreement required to be performed by the Seller at or prior to the Closing Date;

(b) the representations and warranties of the Seller contained in this Agreement shall be true and correct in all material respects as of the Closing Date as if made at and as of such date, except as otherwise contemplated by this Agreement;

(c) No action, proceeding, investigation, regulation, or legislation shall be pending or threatened, the outcome of which Proposed Purchaser shall reasonably believe will succeed on the merits, which seeks to enjoin, restrain, or prohibit Proposed Purchaser, or to obtain substantial damages from Proposed Purchaser, in respect of the consummation of the transactions contemplated hereby, or which seeks to enjoin the operation of all or a material portion of the Business which, in the reasonable judgment of Proposed Purchaser, would make it inadvisable to consummate the transactions contemplated by this Agreement;

(d) Seller and the Company shall have obtained all waivers, consents, and approvals set forth on Schedule 4.05 attached hereto;

(e) The Sale Order shall have been entered by the Court and shall have become a Final Order;

(f) The Bankruptcy Case with respect to the Company shall have been dismissed as to the Company without prejudice, and the Court shall not have entered an order limiting in any way the Company from subsequently filing a voluntary petition for relief under the Bankruptcy Code;

(g) Proposed Purchaser shall not have received any additional information after the date hereof from which, in its reasonable discretion and judgment, Proposed Purchaser will conclude that it shall be liable for any material Taxes of Seller or any of its subsidiaries for any taxable period ending prior to or coincident with the Closing Date or, if Proposed Purchaser is not so satisfied, Seller shall have provided security for the payment of any such Taxes in a manner reasonably satisfactory to Proposed Purchaser; and

(h) Subject to Court approval, the Company shall have entered into a lease for the Company's premises located at 855 Commercial Avenue, San Gabriel, County of Los Angeles, California terminable upon three (3) months notice.

## ARTICLE VIII

### OTHER OFFERS

Section 8.01 Submission for Court Approval. As promptly as practicable, but in no event later than five Business Days, after the date hereof, the Seller shall file with the Court, and seek a hearing on, a motion seeking the approval of the Bidding Procedures set forth on Exhibit A (as defined below) and authorizing the observance and performance of such terms by the Seller and the Proposed Purchaser.

Section 8.02 Competitive Bidding. The Seller acknowledges that this Agreement is the culmination of an extensive process undertaken by the Seller, with the assistance of Lincoln Partners L.L.C., to identify and negotiate a transaction with a bidder who was prepared to pay the highest and best purchase price for the Shares. Set forth on Exhibit A hereto are the bidding procedures (the "Bidding Procedures") to be employed with respect to this Agreement concerning the sale of the Shares to the Proposed Purchaser (the "Sale"); provided, that the Proposed Purchaser reserves the right to further comment on the form of the order of the Court approving the Bidding Procedures (the "Bidding Procedures Order"). The Sale is subject to competitive bidding only as set forth herein and approval by the Court at a hearing under Section 363 of the Bankruptcy Code (the "Sale Hearing").

Section 8.03 Break-Up Fee and Expense Reimbursement. In the event that the Seller accepts a Bid for the Shares other than that of the Proposed Purchaser, as the highest or best offer (an "Auction Transaction"), the Seller shall pay to the Proposed Purchaser, upon the closing of such Auction Transaction and from the proceeds thereof, an amount equal to \$70,500 (the "Break-Up Fee and Expense Reimbursement") which reimburses the Proposed Purchaser for the time and expense dedicated to this transaction and the value added by the Proposed Purchaser in (A) establishing a bid standard or minimum for other bidders, (B) placing the Seller's estate property in a sales configuration mode attracting other bidders to the Auction and (C) for serving, by its name and its expressed interest, as a catalyst for other potential or actual bidders. The Break-Up Fee and the Expense Reimbursement shall be paid as administrative priorities of the Seller under Section 503(b)(1) of the Bankruptcy Code. In no event shall the Break-Up Fee and Expense Reimbursement be payable to the Proposed Purchaser if the Proposed Purchaser terminates this Agreement (other than in the event of an Auction Transaction or pursuant to Section 9.01(b)).

## ARTICLE IX

### TERMINATION

Section 9.01 Termination. This Agreement may be terminated:

- (a) by mutual written agreement of the Seller and the Proposed Purchaser prior to the Closing Date;
- (b) by either the Seller or the Proposed Purchaser if the Court approves a higher or better offer for the Shares;

(c) by the Seller if any of the conditions set forth in Section 7.02 shall have become incapable of fulfillment or cure and shall not have been waived by the Seller, provided the Seller is not then in breach of this Agreement;

(d) by the Proposed Purchaser if any of the conditions set forth in Section 7.03 shall have become incapable of fulfillment or cure and shall not have been waived by the Proposed Purchaser, provided the Proposed Purchaser is not then in breach of this Agreement; or

(e) by either the Seller or the Proposed Purchaser, if the Closing has not occurred on the date which is 90 days after the date of execution of this Agreement; provided that the terminating party is not in material breach of this Agreement.

Section 9.02 Effect of Termination and Abandonment. If this Agreement is terminated pursuant to Section 9.01(b), the Proposed Purchaser's sole remedy shall be a return of the Good Faith Deposit and the Break-Up Fee and Expense Reimbursement. If this Agreement is terminated pursuant to Section 9.01(a), 9.01(d) or 9.01(e), the Proposed Purchaser's sole remedy shall be a return of the Good Faith Deposit. Subject to this Section 9.02, if this Agreement is terminated for any reason, all rights and obligations of the Seller shall terminate without any liability to the Proposed Purchaser.

## ARTICLE X

### GENERAL PROVISIONS

Section 10.01 No Survival of Representations and Warranties. No representations or warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive beyond the Closing Date.

Section 10.02 Taxes. Subject to Court approval, the Proposed Purchaser and the Seller intend that § 1146(c) of the Bankruptcy Code shall apply to this transaction. To the extent that § 1146(c) is inapplicable, all sales, use, transfer and documentary taxes or fees, if any, payable in connection with the sale, conveyance, assignments, transfers and deliveries to be made to the Proposed Purchaser hereunder shall be borne by the Proposed Purchaser and paid when due.

Section 10.03 Costs and Expenses. Subject to Section 8.03, whether or not the transactions contemplated by this Agreement are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated thereby, including transfer taxes, surveys, title insurance, environmental studies and any and all other costs and expenses, except for legal and accounting fees, shall be paid by the Proposed Purchaser. Subject to Section 8.03, all legal and accounting costs, fees and expenses incurred in connection with this Agreement and the transactions contemplated thereby shall be paid by the party incurring such expenses. The foregoing shall not affect the legal right, if any, that any party hereto may have to recover expenses from any other party that breaches its obligations hereunder.

Section 10.04 Post-Closing Obligations.

(a) The Proposed Purchaser agrees to make those books and records of the Company available for inspection by the Seller, or by its representatives, at all reasonable times during normal business hours, for a five (5) year period after the Closing, with respect to the period prior to and relating to the Closing. As used herein, the right of inspection includes the Proposed Purchaser's agreement to provide extracts or copies.

(b) For a period of one (1) year after the Closing, the Proposed Purchaser shall make its personnel reasonably available to the Seller, at no cost to the Seller, to assist the Seller in completing the administration of the Seller's estate in the Bankruptcy Case.

(c) The parties shall execute such further documents, and perform such further acts, as may be necessary to transfer the Shares to the Proposed Purchaser on the terms herein contained and to otherwise comply with the terms of this Agreement and consummate the transaction contemplated hereby.

(d) The Proposed Purchaser agrees that, within 60 days of the Closing, or such greater period of time that the Court may decide is reasonable, it will use its best efforts to enter into agreements with each creditor identified on Schedule 4.19 attached hereto to settle, compromise and pay, on terms and conditions mutually agreed upon by the Proposed Purchaser and each such creditor, all claims against Fansteel Schulz Products, Inc. set forth on Schedule 4.19, which claims were scheduled or filed as timely proofs of claims in accordance with the bar date entered by this Court on July 3, 2002, which claims Debtors believe should be allowed, and which claims are not disputed. The Proposed Purchaser reserves the right to dispute in good faith any or all of these claims.

Section 10.05 Notices. All notices, claims, demands, and other communications hereunder shall be in writing and shall be deemed given upon (a) confirmation of receipt of a facsimile transmission, (b) confirmed delivery by a standard overnight carrier or when delivered by hand, or (c) the expiration of five (5) Business Days after the day when mailed by registered or certified mail (postage prepaid, return receipt requested), addressed to the respective parties at the following addresses (or such other address for a party as shall be specified by like notice):

(a) If to the Proposed Purchaser, to:

Hancock Park Associates  
10323 Santa Monica Boulevard  
Suite 101  
Los Angeles, CA 90025-5056  
Attn: Michael J. Fourticq, Sr.

and

Paul, Hastings, Janofsky & Walker LLP  
Twenty-Fifth Floor  
515 S. Flower Street  
Los Angeles, CA 90071-2228

Attn: Robert A. Miller, Jr., Esq.

(b) If to the Seller, to:

Fansteel Inc.  
One Tantalum Place  
North Chicago, IL 60064  
Attn: Chief Executive Officer

with copies to:

Schulte Roth & Zabel LLP  
919 Third Avenue  
New York, NY 10022  
Attn: André Weiss

Section 10.06 Publicity. No party to this Agreement shall issue any press release or other publicity concerning the proposed transaction without the prior approval of the other party, except as otherwise required by law. Each party shall provide to the other party a reasonable opportunity to review any press release prior to its issuance.

Section 10.07 Descriptive Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 10.08 Entire Agreement; Assignment. This Agreement (including the Schedules and the other documents and instruments referred to herein) (a) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties or any of them, with respect to the subject matter hereof, including, without limitation, any transaction between or among the parties hereto, provided, however, that the terms of any confidentiality agreement executed in connection with the Proposed Purchaser's investigation and due diligence of the Company shall survive execution of this Agreement, and (b) shall not be assigned by operation of law or otherwise.

Section 10.09 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to the rules of conflict of laws of the State of New York or any other jurisdiction. Each of the parties hereto irrevocably and unconditionally consents to submit to the jurisdiction of New York and to the United States District Court for the District of Delaware, for any litigation arising out of or relating to this Agreement and the transactions contemplated thereby (and agrees not to commence any litigation relating thereto except in such courts), waives any objection to the laying of venue of any such litigation therein, and agrees not to plead or claim that such litigation has been brought in an inconvenient form.

Section 10.10 Amendment. This Agreement may not be amended except by an instrument in writing signed on behalf of all the parties hereto.

Section 10.11 Waiver. At any time prior to the Closing Date, the parties hereby may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

Section 10.12 Counterparts; Effectiveness. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement. This Agreement shall become effective when each party hereto shall have received counterparts thereof signed by the other party hereto.

Section 10.13 Severability; Validity; Parties in Interest. If any provision of this Agreement or the application thereof to any person or circumstance is held invalid or unenforceable, the remainder of this Agreement, and the application or such provision to other persons or circumstances, shall not be affected thereby, and to such end, the provisions of this Agreement are agreed to be severable. Nothing in this Agreement, express or implied, is intended to confer upon any person not a party to this Agreement any rights or remedies of any nature whatsoever under or by reason of this Agreement.



IN WITNESS WHEREOF, the Seller, the Proposed Purchaser and the Company have caused this Agreement to be executed on their behalf by their duly authorized officers, as of the date first above written.

PROPOSED PURCHASER:

\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

SELLER:

FANSTEEL INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

COMPANY:

FANSTEEL SCHULZ PRODUCTS, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

## ANNEX I

### INDEX OF DEFINED TERMS

	<u>Page</u>
Agreement .....	1
Auction .....	4
Auction Transaction .....	17
Bankruptcy Case .....	1
Bankruptcy Code .....	1
Bidding Procedures .....	17
Bidding Procedures Order .....	17
Break-Up Fee and Expense Reimbursement .....	17
Business .....	1
Business Day .....	3
Closing .....	3
Closing Date .....	3
Closing Statement .....	2
Closing Working Capital .....	3
Code .....	6
Company .....	1
Company Plans .....	6
Contracts .....	6
Court .....	1
Debtors .....	1
Employees .....	15
Environmental Actions .....	9
Environmental Laws .....	9
ERISA .....	6, 7
ERISA Affiliate .....	6
Escrow Agreement .....	3
Expense Reimbursement .....	17
Final Order .....	14
Financial Statements .....	8
Good Faith Deposit .....	1
Hazardous Materials .....	9
Independent Accounting Firm .....	2
Leases .....	6
Material Adverse Effect .....	5
Objection Notice .....	2
Owned Real Property .....	6
Pension Plan .....	6
Permits .....	8
Personal Property .....	6
Proposed Purchaser .....	1
Purchase Price .....	2
Release .....	9
Sale .....	17
Sale Hearing .....	17
Section 363 Order .....	1

Seller.....	1
Shares .....	1
Tax.....	11
Tax Returns .....	11
Welfare Plan .....	6

Fansteel, Inc.

**Bidding Procedures**

Set forth below are the bidding procedures (the "Bidding Procedures") to be employed with respect to the stock purchase agreement (the "Agreement") by and among [ ], a [ ] [corporation] (the "Proposed Purchaser"), Fansteel Inc., a Delaware corporation (the "Seller") concerning the prospective sale (the "Sale") of the Shares (defined below). The Seller will seek entry of an order from the Court authorizing and approving the Sale to a Qualified Bidder (as hereinafter defined) which the Seller may determine to have made the highest or otherwise best offer (the "Successful Bidder"). The following overbid provisions and related bid protections are designed to reimburse the Proposed Purchaser for its efforts and agreements to date and to facilitate a full and fair process designed to maximize the value of the Shares for the benefit of the Seller's creditors and stakeholders. These Bidding Procedures shall not be subject to material changes without approval of the Court. All capitalized terms used in this Exhibit that are not separately defined herein shall have the respective meanings ascribed thereto in the Agreement.

**Assets to be Sold**

The Seller is offering for sale all of the issued and outstanding shares (the "Shares") of capital stock of Fansteel Schulz Products, Inc., a Delaware corporation and wholly-owned subsidiary (the "Company").

**The Bidding Process**

The Seller shall (i) determine whether any person is a Qualified Bidder (as defined below), (ii) coordinate the efforts of Qualified Bidders in conducting their due diligence investigations, (iii) receive offers from Qualified Bidders, and (iv) negotiate any offers made to purchase the Shares (collectively, the "Bidding Process"). Any person who wishes to participate in the Bidding Process must be a Qualified Bidder. Neither the Seller nor its representatives shall be obligated to furnish any information of any kind whatsoever to any person who is not determined to be a Qualified Bidder. Qualified Bidders shall be given all relevant information pertaining to the Sale. The Seller shall have the right to adopt such other rules for the Bidding Process, which rules will better promote the goals of the Bidding Process and which are not inconsistent with any of the other provisions hereof or of any Court order.

**Participation Requirements**

Unless otherwise ordered by the Court for cause shown or as otherwise determined by the Seller, in order to participate in the Bidding Process each person (a "Potential Bidder") must deliver (unless previously delivered) to the Seller:

- (i) An executed confidentiality agreement in form and substance satisfactory to the Seller; and

- (ii) Current audited financial statements of the Potential Bidder, or, if the Potential Bidder is an entity formed for the purpose of acquiring the Shares, current audited financial statements of the equity holder(s) of the Potential Bidder, or such other form of financial disclosure acceptable to the Seller and its advisors demonstrating such Potential Bidder's ability to close a proposed transaction.

A "Qualified Bidder" is any Potential Bidder or multiple Potential Bidders participating in the Bidding process together that delivers the documents described in subparagraphs (i) and (ii), whose financial information demonstrates the financial capability of the Potential Bidders, either jointly or separately, to consummate the Sale, and that the Seller determines is reasonably likely (based on availability of financing, experience and other considerations) to submit a bona fide offer and to be able to consummate the Sale if selected as the Successful Bidder.

Within two business days after a Potential Bidder delivers all of the materials required by subparagraphs (i) and (ii) above, the Seller shall determine, and shall notify the Potential Bidder, if such Potential Bidder is a Qualified Bidder.

#### Due Diligence

The Seller may afford any Qualified Bidder the opportunity to conduct a due diligence review. The Seller will designate an employee or other representative to coordinate all reasonable requests for additional information and due diligence access from Qualified Bidders. The Seller shall not be obligated to furnish any due diligence information after the Bid Deadline (as hereinafter defined). Neither the Seller nor any of its representatives are obligated to furnish any information to any person. Bidders are advised to exercise their own discretion before relying on any information provided by anyone other than the Seller or its representatives.

#### Bid Deadline

A Qualified Bidder who desires to make a bid shall deliver a written copy of its bid to (1) the Seller, c/o Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, NY 10022, Attn: Jeffrey Sabin, Esq., not later than 11:00 a.m. (eastern time) on the date which is three Business Days prior to the date scheduled by the Court for the Sale Hearing (the "Bid Deadline"). The Seller will immediately distribute by facsimile transmission, personal delivery or reliable overnight courier service in accordance with the Agreement, a copy of each Bid upon receipt to counsel for the Proposed Purchaser. The Seller may, in its discretion, extend the Bid Deadline once or successively, but is not obligated to do so. The Seller shall announce the terms of the highest and best Qualified Bids received by the Bid Deadline by 5:00 p.m. (Prevailing eastern time) on [ ], 2002.

#### Bid Requirements

For the purposes of determining the existence of a bid, a bid may be in the form of a joint bid from more than one Qualified Bidder, or may be in the form of separate bids from more than one Qualified Bidder, with each such separate bid being for a portion of the Shares,

but all of such separate bids collectively aggregating a bid price having a value greater than or equal to the sum of (x) the value, as reasonably determined by the independent financial advisor of the Seller, of the Proposed Purchaser's offer plus (y) the amount of the Break-Up Fee and Expense Reimbursement (as defined below) plus (z) (A) in the case of the initial Qualified Bid, \$40,000, and (B) in the case of any subsequent Qualified Bids, \$40,000 plus the amount by which the preceding Qualified Bid exceeds the sum of (x) plus (y) above. All bids must include the following documents (the "Required Bid Documents"):

- A letter stating that one or more Qualified Bidders offer to purchase all or a portion of the Shares and that such offer is irrevocable until 2 business days after the Shares have been disposed of pursuant to these Bidding Procedures.
- A statement by each Qualified Bidder that it is prepared to enter into and consummate the Sale as soon as practicable but in no event more than thirty-one (31) days after entry by the Court of the 363 Order.
- An executed copy of the Agreement, together with all Exhibits and Schedules thereto (the "Definitive Sale Documentation") marked and initialed to show those amendments and modifications to such agreement that the Qualified Bidder proposes, including, but not limited to, price and the time of closing.
- A good faith deposit (the "Good Faith Deposit") in the form of a certified check or other form acceptable to the Seller in its sole discretion payable to the order of the Seller (or such other party as the Seller may determine) in an amount equal to \$235,000. All Qualified Bidders shall enter into an escrow agreement as directed by the Seller.
- Written evidence of a commitment for financing or other evidence of ability to consummate the proposed transaction satisfactory to the Seller.
- A statement by each Qualified Bidder as to whether such bidder intends to assume any liabilities associated with any defined benefit plan sponsored by the Company.

The Seller will consider a bid only if the bid is on terms that are not conditioned on obtaining financing or on the outcome of unperformed due diligence by the bidder. A bid received from a Qualified Bidder that includes all of the Required Bid Documents and meets all of the above requirements is a "Qualified Bid."

If the Seller does not receive any Qualified Bids, the Seller will report the same to the Court and will proceed with a sale and assignment of the Shares to Proposed Purchaser

pursuant to the terms of the Agreement. The Agreement executed by Proposed Purchaser shall constitute a Qualified Bid for all purposes.

### Bid Protection

Recognizing the Proposed Purchaser's expenditure of time, energy and resources, the Seller has agreed to provide certain bidding protections to the Proposed Purchaser. Specifically, the Seller has determined that the Agreement will further the goals of the Bidding Procedures by setting a floor for which all other Potential Bids must exceed and, therefore, is entitled to be selected as a "Stalking Horse Bid." As a result, the Seller has agreed to pay, in certain limited circumstances, to the Proposed Purchaser a break-up fee equal to \$70,500, including, without limitation, actual fees and expenses incurred by the Proposed Purchaser in pursuing the Sale (collectively, the "Break-Up Fee and Expense Reimbursement"). The payment of the Break-Up Fee and Expense Reimbursement shall be governed solely by the provisions of the Agreement.

### Auction

If the Seller receives a Qualified Bid, the Seller will conduct an auction (the "Auction") at the offices of Schulte, Roth & Zabel LLP, 919 Third Avenue, New York, NY 10022, Attn: Jeffrey Sabin, Esq., on the date that is one Business Day prior to the date scheduled by the Court for the Sale Hearing, beginning at 11:00 a.m. (EST) or such later time or other place as the Seller shall notify all Qualified Bidders who have submitted Qualified Bids. Only the Proposed Purchaser, the Seller, any representative of any creditors' committee appointed in the bankruptcy case and any Qualified Bidders who have timely submitted Qualified Bids shall be entitled to attend the Auction, and only the Proposed Purchaser and Qualified Bidders will be entitled to make any subsequent Qualified Bids at the Auction. During the Auction, bidding shall begin initially with the highest Qualified Bid and continue in minimum increments of at least \$40,000 higher than the previous Qualified Bid. Bidding at the Auction will continue until such time as the highest and best Qualified Bid is determined. The Seller may announce at the Auction additional procedural rules that are reasonable under the circumstances (e.g., the amount of time allotted to make subsequent overbids) for conducting the Auction so long as such rules are not inconsistent with these Bidding Procedures.

Upon conclusion of the Auction, the Seller, in consultation with its financial and business advisors shall (i) review each Qualified Bid or bids on the basis of financial and contractual terms and the factors relevant to the sale process, including those factors affecting the speed and certainty of consummating the Sale, and (ii) identify the highest and otherwise best offer for the Shares (the "Successful Bid"), which highest and best offer will provide the largest amount of net value to the Seller after payment of, among other things, the Break-Up Fee and Expense Reimbursement, if necessary. The Seller may adopt rules for the bidding process at the Auction that will better promote the goals of the bidding process and that are not inconsistent with any of the provisions of the Bankruptcy Code, any Court order, or these Bidding Procedures.

### **Acceptance of Qualified Bids**

The Seller shall sell the Shares for the highest or otherwise best Qualified Bid received at the Auction upon the approval of such Qualified Bid by the Court after the hearing (the "Sale Hearing"). The Seller's presentation of a particular Qualified Bid to the Court for approval does not constitute the Sellers' acceptance of the bid. The Seller will be deemed to have accepted a bid only when the bid has been approved by the Court at the Sale Hearing.

### **Sale Hearing**

The Sale Hearing will be held before the Honorable Joseph J. Farnan on [     ], 2002 at [     ] a.m. (prevailing eastern time) at the United States Bankruptcy Court for the District of Delaware, located in Wilmington, Delaware, but may be adjourned or rescheduled without further notice by an announcement of the adjourned date at the Sale Hearing.

Following the Sale Hearing approving the sale of the Shares to the Successful Bidder, if such Successful Bidder fails to consummate an approved sale because of a breach or failure to perform on the part of such Successful Bidder, the next highest or otherwise best Qualified Bid, as disclosed at the Sale Hearing, shall be deemed to be the Successful Bid and the Seller shall be authorized, but not required, to consummate the sale with the Qualified Bidder submitting such bid without further order of the Court.

### **Return of Good Faith Deposit**

Good Faith Deposits of all Qualified Bidders (except for the Successful Bidder) shall be held in an interest-bearing escrow account until two (2) days following the Auction. If a Successful Bidder fails to consummate an approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Seller will not have any obligation to return the Good Faith Deposit deposited by such Successful Bidder.

### **Modifications**

The Seller may (a) determine, which Qualified Bid, if any, is the highest or otherwise best offer; and (b) reject at any time before entry of an order of the Court approving a Qualified Bid, any bid that is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code, the Bidding Procedures, or the terms and conditions of sale, or (iii) contrary to the best interests of the Seller, its estates and creditors. At or before the Sale Hearing, the Seller may impose such other terms and conditions as it may determine to be in the best interests of the Seller's estate, its creditors and other parties in interest.



Schedule 4.05

Consents and Approvals

Congress Financial Corporation

Schedule 4.07

Assets

Owned Real Property

None

Personal Property

See attached Personal Property List

**PERSONAL PROPERTY**  
**CONSOLIDATED ACCOUNTS RECEIVABLE**  
June 30, 2002

Description	Amount
Accounts Receivable	\$ 750,178
Other Notes & Receivables	2,521
	752,699
<u>Less: Allowance for Bad Debts</u>	<u>(4,000)</u>
<u>Total Fansteel Schulz Products Receivables</u>	<u>\$ 748,699</u>

PERSONAL PROPERTY  
INVENTORIES  
June 30, 2002

Description	Dollar Amount of Value (Cost)	
Raw Materials	\$	410,283
Work-in-process		834,257
		1,244,540
Less: LIFO Reserve		
Total Inventory	\$	1,244,540

**PERSONAL PROPERTY  
OTHER PERSONAL PROPERTY  
June 30, 2002**

<u>Description</u>		<u>Book Value</u>
Other Current Assets:		
Insurance	\$	10,525
Rent-Buildings and Facilities		3,000
Prepaid material purchases		27,095
<b>Total Other Assets</b>		<b>\$ 40,620</b>

**PERSONAL PROPERTY**  
**AUTOMOBILES, TRUCKS, TRAILERS AND OTHER VEHICLES AND ACCESSORIES**  
**June 30, 2002**

<b>Quantity</b>	<b>Category</b>	<b>DESCRIPTION</b>
1	Vehicle	1988 Ford Van VIN 1FMHE21G4JHA17295 - California License 2HBN807
1	Vehicle	1995 Ford Pickup Truck VIN 1FTEF15Y6SLA38309 - California License 5A85202

**Note: Value is reflected from debtors combined fixed asset report including machinery and equipment**

**PERSONAL PROPERTY**  
**MACHINERY FIXTURES, EQUIPMENT AND SUPPLIES USED IN BUSINESS**  
**June 30, 2002**

Quantity	Category	Description
1	Vertical Machining Center	Hitachi Seiki Model VA-55 3 Axi Machining Center, with Fanuc 11M-F CNC Control
1	Vertical Machining Center	Hitachi Seiki Model VA-45 Vertical machining Center with Fanuc 11M-F CNC Control
3	Vertical Machining Center	Hitachi Seiki Model VA40 3- Axis Vertical Machining Center with Fanuc 6M Control
1	Vertical Machining Center	Hitachi Seiki Model VA40 4 Axis Vertical Machining Center with Fanuc 6M Control
1	Vertical Machining Center	Yeong Chin Model Super Max 3 Axis Vertical Machining Center, with Fanuc OM Model Control
1	Vertical Machining Center	Okuma MC-4VA Vertical Mill Machine with Okuma OSP 5000 M-G Control, 3 Axis capability
1	Vertical Machining Center	Femco KfV-40 Vertical Machining Center with Fanuc OM controls
3	CNC Lathes	Okuma LB 15 with OSP 5000 Controls
1	CNC Lathes	Okuma LB 25 with OSP 5000 Controls
1	Chucker	Tsugami Chucker Model 1-SPL
1	Turret Lathes	12" Clausing (1 1/8" Bar Cap.)
1	Engine Lathes	13" LeBlond Regal
1	Engine Lathes	18" Tass with duplicate tracer attachment
1	Mills	#2 Cincinnati (Horizontal with vertical head)
1	Mills	Bridgeport "J" Head (Vertical)
1	Mills	Wells / Index Model #747 (Vertical)
1	Mills	Turret Milling Machine (Vertical)
1	Mills	Nichols (Horizontal)
14	Drill Presses	17" Delta Presses
2	Drill Presses	15" Walker Turner Presses
1	Drill Presses	15" Atlas
1	Honing	Sunnen Honing Maching
1	Honing	Sunnen Bore Gauge
1	Grinders	#2 Makino Tool & Cutter Grinder
4	Grinders	Pedestal Tool Grinders
1	Tapping	"Kira" KTV-3 Tapper capacity 5/16 to 1 3/16
1	Saws	W.F. Wells #F-15-2U Automatic Horizontal Band Saw
1	Saws	Delta Band Saw
5	Deburr Tools	Dumor Power Tools
2	Deburr Tools	Belt Sanders
1	Deburr Tools	Tumbler
1	Deburr Tools	Buffalo Drill Press
1	Compressor	10 H.P. Air Compressor

92751103

**PERSONAL PROPERTY**  
**MACHINERY FIXTURES, EQUIPMENT AND SUPPLIES USED IN BUSINESS**  
**June 30, 2002**

1	Inspection Tools	Optical Comparator-Kodak Model 14-2A
1	Inspection Tools	Optical Comparator-Covel Model 14-B
3	Inspection Tools	Sets of Gauge Blocks
2	Inspection Tools	Indicator Comparators
1	Height Gages	24" Starrett Digi-Check (Cadillac)
1	Height Gages	16" Height Master
1	Height Gages	18" Brown & Sharp
1	Height Gages	24" Brown & Sharp
2	Height Gages	12" Brown & Sharp
1	Height Gages	12" Mitutoyo Digital
1	Height Gages	24" Mitutoyo Digital
1	Surface Plates	48" X 36" (Granite)
2	Surface Plates	36" X 36" (Metal)
1	Surface Plates	18" X 24" (Granite)
1	Surface Plates	24" X 36" (Granite)
1	Other	Freeland Dual Capacity Air Gauge
1	Other	Hypot Model 404
1	Other	Resistance Bridge Model ZM-4 B/U
1	Other	Rockwell Hardness Tester
1	Other	Profilometer
1	Computer Software	MRP Visual Job Shop Software
<b>Total Costs</b>		<b>\$569,388</b>



## Schedule 4.09

### Contracts

See attached list of contracts and other arrangements (creditors' claims and property held for another person).

**Fansteel Schulz Products, Inc.**  
**Pre-petition Accounts Payable**  
As of June 30, 2002  
**EXECUTORY CONTRACTS**

NAME AND MAILING ADDRESS, INCLUDING ZIP CODE, OF OTHER PARTIES TO LEASE OR CONTRACT	DESCRIPTION OF CONTRACT OR LEASE AND NATURE OF INTEREST.
2173 COMMERCE & INDUSTRY INSURANCE DOMINION TOWER 9TH FLOOR 625 LIBERTY STREET PITTSBURGH, PA 15222	INSURANCE / POLICY NUMBER WC 455-24-17 TERM 6/30/01 - 6/30/02
1426 LOCKHEED MARTIN CORPORATION P.O. BOX 748 FORT WORTH, TX 76101	PRODUCTS LTA / PRODUCTS LTA
1425 LOCKHEED MARTIN CORPORATION P.O. BOX 748 FORT WORTH, TX 76101	PRODUCTS LTA / PRODUCTS LTA
1424 LOCKHEED MARTIN CORPORATION P.O. BOX 748 FORT WORTH, TX 76101	PRODUCTS LTA / PRODUCTS LTA
1423 LOCKHEED MARTIN CORPORATION P.O. BOX 748 FORT WORTH, TX 76101	PRODUCTS LTA / PRODUCTS LTA
1422 LOCKHEED MARTIN CORPORATION P.O. BOX 748 FORT WORTH, TX 76101	PRODUCTS LTA / PRODUCTS LTA
1421 LOCKHEED MARTIN CORPORATION P.O. BOX 748 FORT WORTH, TX 76101	PRODUCTS LTA / PRODUCTS LTA
1420 LOCKHEED MARTIN CORPORATION P.O. BOX 748 FORT WORTH, TX 76101	PRODUCTS LTA / PRODUCTS LTA

Fansteel Schulz Products, Inc.  
Post Petition Accounts Payable  
As of June 30, 2002

Vendor ID	Vendor	Invoice No	0 - 30	31 - 60	61 - 90	Amount Due
3090	Aero Form-Tech Inc.	9829	56.00			56.00
3090	Aero Form-Tech Inc.		56.00			56.00
3180	All Service Packaging, Inc.	7336	54.93			54.93
3180	All Service Packaging, Inc.	7337	54.93			54.93
3180	All Service Packaging, Inc.	7514	113.14			113.14
3180	All Service Packaging, Inc.	7515	146.43			146.43
3180	All Service Packaging, Inc.		369.43			369.43
3187	American National Bank	62602	8,433.30			8,433.30
3187	American National Bank		8,433.30			8,433.30
3300	Arrowhead Mountain Spring Wat	02F2703760005	47.83			47.83
3300	Arrowhead Mountain Spring Wat.		47.83			47.83
3622	Butler Compressor	70974	1,691.33			1,691.33
3622	Butler Compressor		1,691.33			1,691.33
3725	Carpenter Technology Corp.	59-28296	553.34			553.34
3725	Carpenter Technology Corp.		553.34			553.34
3855	Consolidated Freightways	974-368850	301.45			301.45
3855	Consolidated Freightways	981-302291	203.00			203.00
3855	Consolidated Freightways	981-295000	92.99			92.99
3855	Consolidated Freightways		597.44			597.44
3860	Consolidated Industries, Inc.	044045	180.00			180.00
3860	Consolidated Industries, Inc.		180.00			180.00
3943	COSTCO Credit Card, HB	62402	59.48			59.48
3943	COSTCO Credit Card, HB		59.48			59.48
4058	Delta Carbide Cutting Tools	10807		216.90		216.90
4058	Delta Carbide Cutting Tools	10854	832.30			832.30
4058	Delta Carbide Cutting Tools	10855	451.45			451.45
4058	Delta Carbide Cutting Tools	10874	603.71			603.71
4058	Delta Carbide Cutting Tools	10880	1,043.30			1,043.30
4058	Delta Carbide Cutting Tools	10888	483.67			483.67

9275110.3

Fansteel Schulz Products, Inc.  
Post Petition Accounts Payable  
As of June 30, 2002

4058	Delta Carbide Cutting Tools	10914	190.52	190.52
4058	Delta Carbide Cutting Tools	10915	249.56	249.56
4058	Delta Carbide Cutting Tools	10940	465.37	465.37
4058	Delta Carbide Cutting Tools	10956	79.80	79.80
4058	Delta Carbide Cutting Tools	10974	261.23	261.23
4058	Delta Carbide Cutting Tools	10962	342.10	342.10
4058	Delta Carbide Cutting Tools	10982	692.75	692.75
4058	Delta Carbide Cutting Tools	10983	104.08	104.08
4058	Delta Carbide Cutting Tools	11004	268.26	268.26
4058	Delta Carbide Cutting Tools		<u>6,068.10 216.90</u>	<u>6,285.00</u>
4425	Ellison Machinery Company	925713	700.00	700.00
4425	Ellison Machinery Company		<u>700.00</u>	<u>700.00</u>
4801	FedEx	4-258-50466	215.89	215.89
4801	FedEx	4-258-84557	205.30	205.30
4801	FedEx	4-259-21624	47.99	47.99
4801	FedEx	4-259-61247	50.74	50.74
4801	FedEx	4-306-00013	160.36	160.36
4801	FedEx		<u>680.28</u>	<u>680.28</u>
4806	Femco Inc	12486	250.00	250.00
4806	Femco Inc.		<u>250.00</u>	<u>250.00</u>
4825	Friend Metals Co., Inc.	69616	6,675.84	6,675.84
4825	Friend Metals Co., Inc.		<u>6,675.84</u>	<u>6,675.84</u>
5025	Gas Company	62402	59.40	59.40
5025	Gas Company		<u>59.40</u>	<u>59.40</u>
5300	GoldenWest Lubricants, Inc.	176639	270.63	270.63
5300	GoldenWest Lubricants, Inc.		<u>270.63</u>	<u>270.63</u>
5700	Industrial Pipe and Steel Co	677521	67.75	67.75
5700	Industrial Pipe and Steel Co.		<u>67.75</u>	<u>67.75</u>
6000	J.E.S. Disc Grinding, Inc.	35085	203.00	203.00
6000	J.E.S. Disc Grinding, Inc.	35084	203.00	203.00
6000	J.E.S. Disc Grinding, Inc.	35082	261.00	261.00
6000	J.E.S. Disc Grinding, Inc.	35081	319.00	319.00
6000	J.E.S. Disc Grinding, Inc.	35083	348.00	348.00

9275110.3

Fansteel Schulz Products, Inc.  
Post Petition Accounts Payable  
As of June 30, 2002

6000	J.E.S. Disc Grinding, Inc.	35225	377.00	377.00
6000	J.E.S. Disc Grinding, Inc.	35230	245.70	245.70
6000	J.E.S. Disc Grinding, Inc.	35228	290.00	290.00
6000	J.E.S. Disc Grinding, Inc.	35232	464.00	464.00
6000	J.E.S. Disc Grinding, Inc.	35229	348.00	348.00
6000	J.E.S. Disc Grinding, Inc.	35231	464.00	464.00
6000	J.E.S. Disc Grinding, Inc.		<u>3,522.70</u>	<u>3,522.70</u>
6150	Kent H. Landsberg - Paperland	2788206 RI	1,027.92	1,027.92
6150	Kent H. Landsberg - Paperland	2791226 RI	1,352.91	1,352.91
6150	Kent H. Landsberg - Paperland	2806452 RI	71.29	71.29
6150	Kent H. Landsberg - Paperland		<u>2,452.12</u>	<u>2,452.12</u>
6330	L.A. County Tax Collector	40734021	4,067.32	4,067.32 Not due until August
6330	L.A. County Tax Collector		<u>4,067.32</u>	<u>4,067.32</u>
6650	MESCO	1079642-06	184.03	184.03
6650	MESCO	1079642-07	91.79	91.79
6650	MESCO	1079642-08	220.18	220.18
6650	MESCO	1079642-09	73.10	73.10
6650	MESCO	1079642-11	47.63	47.63
6650	MESCO		<u>616.73</u>	<u>616.73</u>
7200	Office Depot Credit Plan	62402	1,194.04	1,194.04
7200	Office Depot Credit Plan		<u>1,194.04</u>	<u>1,194.04</u>
7702	Pacific Bell	62402	398.90	398.90
7702	Pacific Bell	62402B	183.45	183.45
7702	Pacific Bell		<u>582.35</u>	<u>582.35</u>
7720	PacificCare of America	701814	10,297.91	10,297.91
7720	PacificCare of America		<u>10,297.91</u>	<u>10,297.91</u>
7802	PERFECT PITCH INC	1564	899.82	899.82
7802	PERFECT PITCH INC		<u>899.82</u>	<u>899.82</u>
7900	Prudential Overall Supply	385112	114.11	114.11
7900	Prudential Overall Supply	401595	31.18	31.18
7900	Prudential Overall Supply	422925	114.29	114.29
7900	Prudential Overall Supply	460451	98.54	98.54
7900	Prudential Overall Supply	476849	31.18	31.18

9275110.3

Fansteel Schulz Products, Inc.  
Post Petition Accounts Payable  
As of June 30, 2002

7900	Prudential Overall Supply	498105	<u>115.08</u>	<u>115.08</u>
7900	Prudential Overall Supply		<u>504.38</u>	<u>504.38</u>
8462	Rudell Carbide Inc.	19345CM	-87.74	-87.74
8462	Rudell Carbide Inc.	19784	<u>81.90</u>	<u>81.90</u>
8462	Rudell Carbide Inc.		<u>-5.84</u>	<u>-5.84</u>
8560	Shell Oil Company	653646554206	<u>38.58</u>	<u>38.58</u>
8560	Shell Oil Company		<u>38.58</u>	<u>38.58</u>
8570	Doris Schulz	63002	<u>947.00</u>	<u>947.00</u>
8570	Doris Schulz		<u>947.00</u>	<u>947.00</u>
8571	Manlyn Schulz	63002	<u>947.00</u>	<u>947.00</u>
8571	Marilyn Schulz		<u>947.00</u>	<u>947.00</u>
8572	John W. Schulz	63002	<u>1,894.00</u>	<u>1,894.00</u>
8572	John W. Schulz		<u>1,894.00</u>	<u>1,894.00</u>
8637	S.L. Fusco, Inc.	100210980	378.83	378.83
8637	S L. Fusco, Inc.	100212427	<u>218.72</u>	<u>218.72</u>
8637	S.L. Fusco, Inc.		<u>597.55</u>	<u>597.55</u>
8755	Southern California Edison Co	62402	<u>3,999.26</u>	<u>3,999.26</u>
8755	Southern California Edison Co		<u>3,999.26</u>	<u>3,999.26</u>
9200	Tri-Star Precision	13162	65.00	65.00
9200	Tri-Star Precision	13160	125.00	125.00
9200	Tri-Star Precision	13161	<u>135.00</u>	<u>135.00</u>
9200	Tri-Star Precision		<u>325.00</u>	<u>325.00</u>
9350	Unocal 76	61202	<u>347.31</u>	<u>347.31</u>
9350	Unocal 76		<u>347.31</u>	<u>347.31</u>
9412	U.S. Shop Tools	C2130333		-228.06
9412	U S Shop Tools	2138509	251.99	251.99
9412	U S Shop Tools	2138891	<u>154.84</u>	<u>154.84</u>

9275110.3

Fansteel Schulz Products, Inc.  
Post Petition Accounts Payable  
As of June 30, 2002

9412	U.S. Shop Tools		<u>154.84</u>	<u>251.99</u>	<u>-228.06</u>	<u>178.77</u>
9525	Wetmore Tool & Engr. Co., Inc.	72151	<u>415.70</u>			<u>415.70</u>
9525	Wetmore Tool & Engr. Co., Inc.		<u>415.70</u>			<u>415.70</u>
9750	Xerox Corporation	180505791	<u>162.38</u>			<u>162.38</u>
9750	Xerox Corporation		<u>162.38</u>			<u>162.38</u>
9800	Yello Transportation inc.	217-492568	<u>146.64</u>			<u>146.64</u>
9800	Yello Transportation inc.		<u>146.64</u>			<u>146.64</u>
Report Total			<u>55,899.80</u>	<u>1,368.71</u>	<u>4,067.32</u>	<u>-228.06</u>
						<u>61,107.77</u>

<p align="center"><b>FansteelSchulz Products</b>  <b>Accrued Liabilities</b></p>
--

June 30, 2002

**DETAIL OF ACCRUED LIABILITIES**

ACCRUED LIABILITY	Current Month Balance (Debit)Credit
Wages, Commissions, and Bonuses	\$69,312
Vacation and Holiday Pay	77,676
Payroll Taxes	34,278
Payroll Deductions	0
<b>ACCRUED PAYROLL</b>	<b>\$181,266</b>
Real and Personal Property Taxes	(2,978)
Sales Taxes	0
<b>ACCRUED TAXES</b>	<b>(\$2,978)</b>
Audit	0
Legal, Patent, Trustee, Et., (Fees other than Audit)	0
<b>ACCRUED PROFESSIONAL FEES</b>	<b>\$0</b>
Workmen's Compensation	4,360
Medical & Weekly Indemnity	0
Life and A.D. & D. Insurance	0
Dental Care Plan	0
General & Auto Retrospective Insurance	0
Retiree Life Insurance	0
<b>ACCRUED INSURANCE</b>	<b>\$4,360</b>
Profit Sharing	11,519
Pension	0
<b>ACCRUED PROFIT SHARING AND PENSION</b>	<b>\$11,519</b>
Hazardous Waste Disposal	0
Environmental	0
<b>ENVIRONMENTAL</b>	<b>\$0</b>
Accrued AFEs	0
Accrued Maintenance	6,196
Utilities	2,379
<b>OTHER</b>	<b>\$8,575</b>
<b>TOTAL ACCRUED LIABILITIES</b>	<b>\$202,742</b>



# PROPERTY HELD FOR ANOTHER PERSON

Name and Address of Owner	Description and Value of Property	Location of Property
Lockheed Martin Corporation Lockheed Blvd Forth Worth, Texas 76108	Inspection Tooling	
	#215675A; CKFX, 16B6280-49	\$5758 00 Schulz Products, Inc.
	#215676A; CKFX, 16B6280-50	\$5758 00 855 E. Commercial Avenue
	#D26602; INGA; 16C0106-9	\$153.30 San Gabriel, CA 91776
	#D26603; INGA;	\$153.30
	#D32014; INGA; 16C0108-7	\$620 00
	#D32015; INGA; 16C0108-7	\$620.00
	#D28428, THGA; 16F0437-7	\$714 05
	#D28429; THGA; 16F0437-7	\$714.05
	#D28430, MITO, 16F0437-7	\$400.00
	#211969; CKTP; 16F5107A9	\$1212.56
	#D26113; INGA; 16H1103-1	\$150.00
	#D26114; INGA; 16H1103-1	\$150.00
	#D26117; INGA; 16H1203-1	\$150 00
	#D26118; INGA; 16H1203-1	\$150.00
	#D26115; INGA; 16H1203-3	\$150.00
	#D26116; INGA; 16H1203-3	\$150.00
	#D26591; FTTO; 16H1403-9	\$150.00
	#D28057; THGA; 16H1716-13	\$226.67
	#D28058; THGA; 16H1716-13	\$226.67
	#D28059, MSGA; 16H1716-13	\$298.26
	#D26562; PTTO, 16H1803-11	\$111.15
	#D26556; FTTO, 16H205-5	\$87.29
	#D26570, FTTO; 16H205-5	\$111.15
	#D26581; THGA; 16H205-5	\$104 76
	#D26558; PTTO; 16H213-5	\$99.15
	#D26566; FTTO; 16H213-5	\$121.47
	#D26574; FTTO; 16H213-5	\$101.45
	#D26582; THGA; 16H213-5	\$122.04
	#D26587; THGA; 16H213-5	\$146.30
	#D26589; FTTO; 16H213-5	\$83.26
	#D26568; FTTO, 16H303-11	\$111.15
	#D26585; THGA; 16H303-11	\$133.38
	#D26576; THGA; 16H304-13	\$99.90
	#D26554; FTTO; 16H304-13	\$77.86
	#D26560; FTTO; 16H304-13	\$83.26
	#D26572, FTTO, 16H304-13	\$83.26
	#D26583; THGA; 16H304-13	\$93.42
	#D26592; FTTO, 16H607-15	\$87.00
	#D26564; FTTO; 16H704-11	\$111.15
	#D26812; INGA; 16K0043-7	\$70.00
	#D26813; INGA; 16K0043-7	\$70.00
	#D26814; INGA; 16K0043-7	\$70.00
	#D26815; INGA, 16K0043-7	\$70.00
	#D26816; INGA; 16K0043-7	\$53.23
	#D26074; INGA; 16K0543-912	\$140 00
	#D26077; INGA; 16K0543-912	\$140.00
	#V04166; CKGA	\$4671.22
	#V04164; CKGA	\$4704.78
	#D27751; INGA; 16K0683-9	\$1187.00
	#D27752; INGA; 16K0683-9	\$187.00
	#D26596; INGA; 16K0684-9	\$232.50
	#D27357; INGA; 16K2572-21	\$235.80
	#D27358; INGA; 16K2572-21	\$235 80
	#D28042; INGA; 16K2858-12	\$400 00
	#D28043; INGA; 16K2856-12	\$400 00
	#D28089; INGA; 16L421	\$3722.20
	#D28090; INGA; 16L421	\$3722.20

# PROPERTY HELD FOR ANOTHER PERSON

Name and Address of Owner	Description and Value of Property	Location of Property
	#D27897; INGA; 16P1522-907	\$427.00
	#D27898; INGA; 16P1522-907	\$213.50
	#D27899; INGA; 16P1524-7	\$427.00
	#D27900; INGA; 16P1524-7	\$213.50
	#D28284; INGA; 16P1889-1	\$850.00
	#D28285; INGA; 16P1889-1	\$850.00
	#D31866; CKGA; 16P2007-7	\$280.50
	#D31867; CKGA; 16P2007-7	\$280.50
	#D28060; THGA; 16S917-7	\$122.75
	#D28061; THGA; 16S917-7	\$122.75
	#D28062; MSGA; 16S917-7	\$185.25
	#D28063; THGA; 16S917-7	\$246.47
	#D28064; THGA; 16S917-7	\$246.47
	#D28065; MSGA; 16S917-7	\$306.66
	#V04141; MSGA; 16S919-5 (-3)	\$3722.10
	#164044; CKGA; 16T7229-13	\$3798.08
	#D27941; FTTO; 16W190-11	\$240.00
	#D27953; INGA; 16W190-11	\$273.15
	#D27954; INGA; 16W190-13	\$273.15
	#D27956; INGA; 16W190-15	\$273.15
	#D28932; FTTO; 16W190-17	\$132.00
	#D27950; INGA; 16W190-17	\$595.00
	#D27910; FTTO; 16W190-19	\$132.00
	#D28007; INGA; 16W190-19	\$273.15
	#D27929; FTTO; 16W190-21	\$132.00
	#D27955; INGA; 16W190-21	\$273.15
	#D27952; INGA; 16190-7	\$273.15
	#D27938; FTTO; 16W190-9	\$132.00
	#D27951; INGA; 16W190-9	\$272.75
	#D27957; INGA; 16W190-9	\$273.15
	#242941; CKGA; 16L333-1	
	#178835; CKGA; 16T7309-27	\$3687.90
	#150380; MSPE; 16T7229-11, -12	
	#229652; MSPE; 16F8143-9	
F-16 MANUFACTURING TOOLING		
	#165962; TUFEX; 16B2815-27	\$2170.00
	#D29747; HOFX; 16B6280-21	\$1000.00
	#D29756; HOFX; 16B6280-21	\$1600.00
	#D29757; HOFX; 16B6280-21	\$730.00
	#D29758; HOFX; 16B6280-21	\$835.00
	#D29759; HOFX; 16B9280-21	\$835.00
	#D28056; HOFX; 16C0106-9	\$1494.38
	#211878; DRJI; 16E3203-13	\$2170.00
	#165930; MLFX; 16F2147-35	\$1,994.48
	#233870; DRJI; 16F4105-11	\$2,339.93
	#216641; VSJW; 16F4105-13P	\$1933.80
	#251071; VSJW; 16F5102-11	\$26.22
	#199529; DRPE; 16F5102-11	\$500.00
	#207038; HOFX; 16F5102-11	\$2170.00
	#D25570; DRJI; 16H1403-9	\$310.00
	#D25571; DRJI; 16H1403-9	\$310.00
	#D26527; TUFEX; 16H1703-13	\$395.00
	#D26070; DRJI; 16H1703-19	\$695.00
	#D27908; DRJI; 16H1703-19	\$480.00
	#D27909; MLFX; 16H1703-19	\$453.00
	#D26069; HOFX; 16H1704-9	\$400.00

# PROPERTY HELD FOR ANOTHER PERSON

Name and Address of Owner	Description and Value of Property	Location of Property
	#D26100; MLFX; 16H205-1	\$540.00
	#D26101; MLFX; 16H205-1	\$310.00
	#D26102; MLFX; 16H205-2	\$540.00
	#D26103; MLFX; 16H205-2	\$309.98
	#D26477; MAAC; 16H213-4	\$1800.00
	#153536; MLFX; 16H303-9	\$1670.25
	#D28527; MLFX; 16K0627-20	\$488.00
	#D26532; HOFX; 16K0627-916	\$1250.00
	#D26541; DRJI; 16K0627-916	\$200.00
	#164042; DRJI; 16K2533-26	\$1994.48
	#174114; DRPE; 16K2802-11	\$2059.32
	#191914; DRFX; 16P1524-A-87	\$6066.10
	#D28285; DRJI; 16P1832-9	
	#166928; HOFX; 16T7229-11	\$2059.32
	#166929; HOFX; 16T7229-12	\$2059.32
	#D34595; WLFX; 5HH41406-107	\$5850.00
	#211942; DRJI; 16P3131-19	\$2170.09
	#GD25580; DRJI; 16H1803-9	
	#GD26187; 16H607-11	
	#GD26188; HOFX; 16H607-11	
	#GD26191; HOFX; 16H607-11	
	#GD26194; TUFX; 16H607-11	
	#GD26195; APFX; 16H607-11	
	#GD25437; HOFX; 16P142-1, -3	
	#GD25439; DRJI; 16P142-1, -3	
	#GD25440; DRJI; 16P142-1, -3	
	#GD25578; DRJI; 16P142-1, -3	
	#DG26068; DRJI; 16H1703-15	
	#153530; TUFX; 16H303-9 AU10	
	#153531; TUFX; 16H303-9 AU10	
	#153532; DRJI; 16H303-9 AU10	
	#153533; DRJI; 16H303-9 AU10	
	#157935L; DRJI; 16P1548-9	
	#GD26106; 16H303-9 AU10	
	#191913; DRFX; 16P1543-9	
	#157936; MLFX; 16P1543-9	
	#GD25571; DRJI; 16H1403-9	
	#156322; DRJI; 16P1864-7	
	#195777; MLFX; 16B1821-909	
	#215675; CKGA; 16B6280-49	
	#215676; CKGA; 16B6280-50	
	#V04474; TUFM; 16B6280-52	
	#199651; HOFX; 16F4147-	
	#186393; DRTE; 16B4862-11	
	#216497; HOFX; 16B4862-11	
	#D26068; 16H1703-15	
	#D28439; 16K0681-909	
	#164041; 16K2533-25	
	#199530; HRTO; 16F5107	
	#226663; DRJI; 161103-801	
	#199709; DRPE; 16F4147-19	
	#195873; DRPE; 16F4147-19	
	#178835; CKGA; 16T7309-27	

## C-130 MANUFACTURING TOOLING

Lockheed Martin Aeronautics Co  
86 S Cobb Drive

#00115044, MF1 001; 3314804-1  
#00150421; 16A 001; 339149-22

\$2026.40  
\$95.77

Schulz Products Inc.  
855 E. Commercial Avenue

92751103

**PROPERTY HELD FOR ANOTHER PERSON**

Name and Address of Owner	Description and Value of Property	Location of Property
Marietta, GA 30063	#00158387; ATT 001; 339149-27	\$1885.95
	#00229559; ATT 001; 339149-47	\$1257.30
	#00229561; ATT 001; 3639149-57	\$1143.00
	#00201155; 18F2 001; 344420	\$1109.20
	#00110775; 11C 001; 344420	\$973.40
	#00155000; 18F4 001; 352210	\$1142.17
	#00201165; 18F3 001; 352210	\$1105.28
	#00207523; 18F1 001; 352211-L	\$695.51
	#00161388; 182 001; 352211-L	\$695.51
	#00105345; 11C 001; 352211-L	\$567.55
	#00170102; 18F2 001; 352211-R	\$695.51
	#00216143; 18F1 001; 352211-R	\$695.51
	#00303303; ATT 001; 352896-2	\$443.95
	#00404558; MF1 001; 352896-2	\$251.20
	#00567681; CF 001; 356122-1L	\$338.88
	#00200457; 18F3 001; 356122-1L	\$1032.27
	#00567680; CF 002; 356122-1R	\$2457.60
	#00208998; 18F3 001; 356122-1R	\$695.51
	#00072633; 19F2 001; 364266-2	\$459.99
	#00225361; 11C 001; 364266-3	\$449.80
	#00136278; 18F 001; 364266-4	\$956.13
	#00086373; 18F4 001; 371984-1L	\$695.51
	#00039711; 18F5 001; 371984-1L	\$1847.86
	#00538451; U19G1#2; 371984-1L	\$1634.00
	#00131493; 25F 001; 371984-1L	\$235.50
	#00192889; 18F2 001; 371988-2	\$1176.71
	#00146793; 18F3 001; 371988-2	\$877.63
	#00047808; 19A 001; 372018-5	\$101.26
	#00143936; 18F2 001; 372420-1	\$695.51
	#00255479; CF-1-2 001; 372698-1	\$2019.02
	#00183359; 11C 001; 373547-1L	\$449.80
	#00022466; U19G 001; 373547-1L	\$35.32
	#00035082; 18F 001; 373716-2	\$1015.00
	#00039346; 18F2 001; 373862-1	\$695.51
	#00060941; 18F2 001; 373959-2	\$1132.75
	#00238994; CTST1#3 0; 373959-3	\$854.40
	#00295269; 18F 001; 389768-1	\$15618.58
	#00107340; 19F1#2 00; 398851-1	\$906.20
	#00121778; 11C 001; 399851-1	\$1088.47
	#00022974; 18F1 001; 399851-3	\$337.50
	#00084668; DJ1 001; 3317775-5	\$864.20
	#00231958; DJ1 001; 3326729-1	\$4782.16
	#00529498; DJ1 001; 3351726-3	\$1263.60
	#00079026; 11C 001; 339224-3	\$449.80
	#00203707; 11C 001; 339288	\$449.80
	#00225360; 11C 001; 340480	\$449.80
	#00060351; 11A 001; 342578-15L	\$685.80
	#00230795; 11C 001; 343334-L	\$171.45
	#00039762; C14E 001; 348032-1	\$591.00
	#00027184; 11C 001; 350096	\$449.80
	#00070732; 11C 001; 350248	\$628.00
	#00089902; DJ2 001; 350249	\$3714.50
	#00211698; 11C 001; 363569-1	\$449.80
	#00202345; 21F 001; 371395-3	\$1297.60
	#00126172; 11C 001; 371404-1	\$449.80
	#00187034; 11C 001; 371958	\$449.80
	#00121805; 11C 001; 372447-1L	\$567.55
	#00130433; 11C 001; 372447-1R	\$567.55

**PROPERTY HELD FOR ANOTHER PERSON**

<u>Name and Address of Owner</u>	<u>Description and Value of Property</u>	<u>Location of Property</u>
	#00160857; 19A 001; 377325-1	\$101.26
	#00042794; 19A 001; 377325-2	\$101.26
	#00199090, 11C 001; 389707-3	\$449.80
	CUSTOMER FURNISHED RAW MATERIAL ON SITE	
	15 pcs 352210-999 forging	\$682.73
	14 pcs 389768-1 casting	\$5961.09
	11 pcs LS60344-1 extrusion	\$39379.73

Schedule 4.10

Leases

Lease of Building from Schulz Family Trust, Marilyn Schulz, Doris Schulz and John Schulz.

Landlord Address:

3444 San Pasqual  
Pasadena, CA 91107

Schedule 4.11

Labor and Employment

No exceptions.

## Schedule 4.12

### Employee Benefits

The Company is an ERISA Affiliate to the following pension plans:

- Fansteel Hydro Carbide Hourly Employees' Pension Plan
- Fansteel Consolidated Employees' Pension Plan
- Wellman Dynamics Corp. Salaried Employees Retirement Plan
- Fansteel Hourly Employees Savings Plan

The Seller contributes to the following multiemployer plans:

- GMP and Employees Pension Plan
- IAM National Pension Plan

The Pension Benefit Guaranty Corporation (the "PBGC") has filed contingent claims with the Bankruptcy Court with respect to the Fansteel Hydro Carbide Hourly Employees' Pension Plan, the Fansteel Consolidated Employees' Pension Plan and the Wellman Dynamics Corp. Salaried Employees Retirement Plan. As a member of such plans' controlled group, the Company is jointly and severally liable for such claims under Sections 302(c), 4007(c), 4062 and 4068 of ERISA.

Upon the consummation of the transactions contemplated by the Agreement, the Company shall cease to be a member of the controlled group of the plans listed in this Schedule 4.12. Notice to the PBGC shall be waived pursuant to the waiver of notice provisions of PBGC Reg. § 4043.29(c) for de minimis 10-percent segments.



Schedule 4.14  
Financial Statements

Attached.

Fansteel Inc. Schulz Products		INCOME STATEMENT	
		YEAR-TO-DATE December 31, 2001	
	Amount	% Sales	
Customer Sales	\$4,542,887	94.3%	
Inter-Segment Sales	0	0.0%	
Inter-Plant Sales	276,415	5.7%	
<b>Gross Sales</b>	<b>4,819,302</b>	<b>100.0%</b>	
Less: Defective material returned	0	0.0%	
Sales allowances	0	0.0%	
Cash discounts	0	0.0%	
Total sales deduction	0	0.0%	
<b>Net Sales</b>	<b>4,819,302</b>	<b>100.0%</b>	
Cost of Sales			
Cost of merchandise sold	3,835,996	79.6%	
Under (over) earned burden	0	0.0%	
Other costs	0	0.0%	
LIFO adjustment	0	0.0%	
<b>Total cost of sales</b>	<b>3,835,996</b>	<b>79.6%</b>	
<b>Gross profit</b>	<b>983,306</b>	<b>20.4%</b>	
Selling, General, & Administrative Expenses			
Selling Expenses:			
General	0	0.0%	
Branch sales	0	0.0%	
Advertising	0	0.0%	
Total selling expenses	0	0.0%	
Administrative and general expense	188,455	3.9%	
Environmental Remediation	0	0.0%	
<b>Total selling, gen., &amp; admin. expense</b>	<b>188,455</b>	<b>3.9%</b>	
<b>Operating Income(loss)</b>	<b>794,851</b>	<b>16.5%</b>	
Other Income (Expenses)			
Nonrecurring gains (losses)	0	0.0%	
Interest on debt	0	0.0%	
Interest income on marketable sec.	0	0.0%	
Interest other - net	0	0.0%	
Bad debt (expense)/recovery current year	0	0.0%	
Recovery of prior year's bad debts	0	0.0%	
Miscellaneous	(54)	0.0%	
<b>Total other Income (expenses)</b>	<b>(54)</b>	<b>0.0%</b>	
<b>Income Before Corporate Allocation</b>	<b>794,797</b>	<b>16.5%</b>	
Corporate Allocation	(120,000)	-2.5%	
Discontinued Operations	0	0.0%	
<b>Income (Loss) Before Taxes on Income</b>	<b>674,797</b>	<b>14.0%</b>	
Provision for Taxes on Income	230,000	4.8%	
<b>Net Income (Loss)</b>	<b>\$444,797</b>	<b>9.2%</b>	

9275110.3

December 31, 2001

ASSETS		LIABILITIES	
Amount	Current Assets	Current Liabilities	Amount
(\$1,717)	Cash & cash equivalents	Short-term borrowings	\$0
0	Marketable securities	Current portion of long-term debt	0
	Notes and accounts receivable:	Accounts payable	346,413
508,130	Accounts receivable - customer	Accrued liabilities	219,616
4,000	Less: allow for bad debts	Accrued income taxes-Fed, St, & Frgn	98,378
504,130	Net customer	Dividends payable	0
3,961	Other notes & accounts receivables	<b>Total Current Liabilities</b>	<b>664,407</b>
0	Income tax refund receivable		
508,091	Net notes & accounts receivables		
	Inventories:	<b>Long-Term Debt</b>	<b>0</b>
312,587	Raw materials		
836,425	Work-in-process	<b>Inter-Company Control Account</b>	<b>(2,428,915)</b>
0	Supplies		
0	Finished goods:	<b>Other Liabilities</b>	
0	Finished inventory	Disc ops & env remed	0
0	Consigned inventory	Deferred income taxes	0
0	Subtotal finished goods	Long term pension liability	0
1,149,012	Gross inventory	<b>Total Other Liabilities</b>	<b>0</b>
0	Less LIFO reserve		
1,149,012	Net inventories	<b>Shareholder's Equity</b>	
	Other assets - current:	Common stock	100
0	Deferred income taxes	Capital in excess of par value	2,680,746
24,539	Other		
24,539	Total other assets - current	Retained earnings:	
	<b>Total Current Assets</b>	Beginning of year	626,264
1,679,925		Current year earnings	444,797
	<b>Other Assets - Long Term</b>	Dividends declared	0
0	Marketable securities	Total retained earnings	1,071,061
0	Prepaid pension asset	Minimum pension lab adj	0
0	Deferred income tax	Forgn curr trans adj.	0
0	Goodwill		
0	Other	<b>Total Shareholders' Equity</b>	<b>3,751,907</b>
0	Total Other Assets - Long Term		
0	<b>Net Assets Discontinued Operations</b>		
0	<b>Investment in Subsidiaries</b>		
	<b>Property, Plant, and Equipment</b>		
0	Land		
0	Buildings		
559,054	Machinery and equipment		
559,054	Subtotal Property, Plant & Equipment		
251,580	Less accumulated depreciation		
307,474	Net Property, Plant & Equipment		
<b>\$1,987,399</b>	<b>TOTAL ASSETS</b>	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$1,987,399</b>

Fansteel Inc.  
Schulz Products

INCOME STATEMENT

YEAR-TO-DATE

June 30, 2002

	Amount	% Sales
Customer Sales	\$2,237,675	98.2%
Inter-Segment Sales	0	0.0%
Inter-Plant Sales	50,224	2.2%
<b>Gross Sales</b>	<b>2,287,899</b>	<b>100.5%</b>
Less: Defective material returned	0	0.0%
Sales allowances	0	0.0%
Cash discounts	10,320	0.5%
Total sales deduction	10,320	0.5%
<b>Net Sales</b>	<b>2,277,579</b>	<b>100.0%</b>
<b>Cost of Sales</b>		
Cost of merchandise sold	1,869,893	82.1%
Under (over) earned burden	0	0.0%
Other costs	0	0.0%
LIFO adjustment	0	0.0%
<b>Total cost of sales</b>	<b>1,869,893</b>	<b>82.1%</b>
<b>Gross profit</b>	<b>407,686</b>	<b>17.9%</b>
<b>Selling, General, &amp; Administrative Expenses</b>		
Selling Expenses:		
General	0	0.0%
Branch sales	0	0.0%
Advertising	0	0.0%
Total selling expenses	0	0.0%
Administrative and general expense	108,815	4.8%
Environmental Remediation	0	0.0%
<b>Total selling, gen., &amp; admin. expense</b>	<b>108,815</b>	<b>4.8%</b>
<b>Operating Income(loss)</b>	<b>298,871</b>	<b>13.1%</b>
<b>Other Income (Expenses)</b>		
Nonrecurring gains (losses)	0	0.0%
Interest on debt	0	0.0%
Interest Income on marketable sec.	0	0.0%
Interest other - net	0	0.0%
Bad debt (expense)/recovery current year	0	0.0%
Recovery of prior year's bad debts	0	0.0%
Miscellaneous	(1,385)	-0.1%
<b>Total other Income (expenses)</b>	<b>(1,385)</b>	<b>-0.1%</b>
<b>Income Before Corporate Allocation</b>	<b>297,486</b>	<b>13.1%</b>
Corporate Allocation	(122,000)	-5.4%
Discontinued Operations	0	0.0%
<b>Income (Loss) Before Taxes on Income</b>	<b>175,486</b>	<b>7.7%</b>
Provision for Taxes on Income	60,000	2.6%
<b>Net Income (Loss)</b>	<b>\$115,486</b>	<b>5.1%</b>

9275110.3

June 30, 2002

ASSETS		LIABILITIES	
Amount			Amount
<u>Current Assets</u>		<u>Current Liabilities</u>	
(58,915)	Cash & cash equivalents	Short-term borrowings	\$0
0	Marketable securities	Current portion of long-term debt	0
		Accounts payable	343,990
	Notes and accounts receivable:	Accrued liabilities	202,742
750,178	Accounts receivable - customer	Accrued income taxes-Fed, St, & Frgn	158,378
4,000	Less: allow for bad debts	Dividends payable	0
746,178	Net customer	<b>Total Current Liabilities</b>	<b>705,110</b>
2,521	Other notes & accounts receivables		
0	Income tax refund receivable		
748,699	Net notes & accounts receivables		
		<u>Long-Term Debt</u>	0
	Inventories:		
410,283	Raw materials		
834,257	Work-in-process	<u>Inter-Company Control Account</u>	(2,257,693)
0	Supplies		
	Finished goods:		
0	Finished inventory	<u>Other Liabilities</u>	
0	Consigned inventory	Disc opers & env remed	0
0	Subtotal finished goods	Deferred income taxes	0
1,244,540	Gross inventory	Long term pension liability	0
0	Less LIFO reserve	<b>Total Other Liabilities</b>	<b>0</b>
1,244,540	Net Inventories		
		<u>Shareholder's Equity</u>	
	Other assets - current:	Common stock	100
0	Deferred income taxes	Capital in excess of par value	2,680,746
40,620	Other		
40,620	Total other assets - current	Retained earnings:	
		Beginning of year	1,071,061
<b>2,024,944</b>	<b>Total Current Assets</b>	Current year earnings	115,486
		Dividends declared	0
	<u>Other Assets - Long Term</u>	<b>Total retained earnings</b>	<b>1,186,547</b>
0	Marketable securities	Minimum pension liab adj	0
0	Prepaid pension asset	Forgn curr trans adj.	0
0	Deferred income tax		
0	Goodwill	<b>Total Shareholders' Equity</b>	<b>3,867,393</b>
0	Other		
0	<b>Total Other Assets - Long Term</b>		
0	<b>Net Assets Discontinued Operations</b>		
0	<b>Investment in Subsidiaries</b>		
	<u>Property, Plant, and Equipment</u>		
0	Land		
0	Buildings		
569,388	Machinery and equipment		
569,388	Subtotal Property, Plant & Equipment		
279,522	Less accumulated depreciation		
289,866	<b>Net Property, Plant &amp; Equipment</b>		
<b>\$2,314,810</b>	<b>TOTAL ASSETS</b>	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$2,314,810</b>

9275110.3

Schedule 4.16

Legal Compliance

No exceptions.

#### Schedule 4.17

#### Environmental Matters

In 1985, prior to Fansteel's purchase of the Company's assets in 1997, the former owners disposed of 7 yards of oil-contaminated soil at a disposal facility.

Schedule 4.18

Tax Matters

No exceptions.

## Schedule 4.19

### Claims



Name & Mailing Address Including Zip Code	Amount of Claim
Los Angeles County Tax Collector P.O. Box 54018 Los Angeles, Ca 90054	\$1,710.50
A-A-A Plating & Inspection <sup>1</sup> 424 Dixon Street Compton, Ca 90222	\$420.12
Abrasive Finishing Company 14920 South Main Street Gardena, Ca 90248-1921	\$254.93
Accu-Gage & Thread Co. 40 S. San Gabriel Blvd. Pasadena, Ca 91776	\$488.00
Act-1 Personnel Services 1999 West 190th Street Torrance, Ca 90504	\$5,544.00
ADT Security Systems P.O. Box 371956M Pittsburgh, PA 15250-7956	\$43.20
All Power Manufacturing Co. 13141 Mollette Street Santa Fe Springs, CA 90670	\$269.11
APD Company P.O. Box 491 2551 Fernwood Avenue, Lynwood, CA 90262	\$542.00
Astronautics Eng. & Mfg. 14705 Keswick Street Van Nuys, CA 91405	\$203.32
AT&T P.O. Box 78522 Phoenix, AZ 85062-8522	\$275.95
Athens Services P.O. Box 60009 City of Industry, CA 91716	\$359.36

<sup>1</sup> Disputed Claim: Proof of claim filed in the amount of \$1,278.48

Name & Mailing Address Including Zip Code	Amount of Claim
Aurora Bearing Company 970 South Lake Street Aurora, IL 60506	\$1,770.75
Bies Tool Engineering 1874 S. Pacific Coast Hwy #709 Redondo Beach, CA 90277	\$455.00
Blake Manufacturing 15310 Proctor Avenue City of Industry, CA 91745	\$146.20
BodyCote Metal Analysis, Inc. <sup>2</sup> 5996 Collections Center Drive Chicago, IL 60693	\$156.00
Body Cote-Lindberg Corp File 91184 Los Angeles, CA 90074-1184	\$2,500.50
Bowman Plating Company, Inc. 2631 E. 126 <sup>th</sup> Street, Compton, CA 90222	\$1,851.80
Business Appliance – Copiers <sup>3</sup> 4623 Eagle Rock Blvd, Eagle Rock, CA 90041	\$338.31
Butler Compressor 657 Monterey Pass Road Monterey Park, CA 91754	\$286.47
Cal-Doran Metallurgical Serv, P.O. Box 3487 Los Angeles, CA 90074-3487	\$1,943.50
California Metal Processing Co. P.O. Box 2196 Manhattan Beach, CA 90047	\$1,503.25
Carpenter Technology Corp. Dept. LA 21039 Pasadena, CA 91185-1039	\$4,517.58
Coast Cutters Co., Inc. 9755 East Rush Street SO. El Monte, CA 91733	\$6,833.11
Coastal Training Technologies P.O. Box 846078 Dallas, TX 75284-6078	\$48.16

<sup>2</sup> Disputed Claim: Proof of claim filed in the amount of \$324.00

<sup>3</sup> Disputed Claim: Proof of claim filed in the amount of \$580.41

Name & Mailing Address Including Zip Code	Amount of Claim
Continental Heat Treat <sup>4</sup> 10643 S. Norwalk Blvd. Santa Fe Springs, CA 90670	\$2,047.43
Cooperheat, MQS, Inc. P.O. Box 4437 Houston, TX 77210-4437	\$162.50
Creative Pathways Incorporated 3121 Fujita Street, Torrance, CA 90505	\$2,413.00
Crown Equipment & Supply Inc. P.O. Box 3069 Santa Fe Springs, CA 90670	\$147.43
Darco Broach & Gear 4228 Whiteside Street Los Angeles, CA 90063	\$4,201.77
De Ja Grinding Company P.O. Box 291669 Phelan, CA 93239-1669	\$400.00
Delta Carbide Cutting Tools 820 Thompson Avenue #9 Glendale, CA 91201	\$2,546.08
Deluxe Business Forms P.O. Box 64500 St. Paul, MN 55164-0500	\$198.13
Doall Los Angeles File# 33048 Los Angeles, CA 90074-3048	\$2,556.53
Document Engineering Co., Inc. 15210 Stagg Street, Van Nuys, CA 91505	\$95.00
Don Richetts Company, Inc. 828 East Valley Blvd., San Gabriel, CA 91778	\$189.27
Doris Schulz 3444 San Pasqual Pasadena, CA 91107	\$473.50
Downey Grinding Company, Inc. P.O. Box 583 Downy, CA 90241-0583	\$1,569.90

<sup>4</sup> Disputed Claim: Proof of claim filed in the amount of \$2,467.22

Name & Mailing Address Including Zip Code	Amount of Claim
Durkee Testing Laboratories P.O. Box 1401 15700 Texaco Street Paramount, CA 90723	\$522.00
Dynamold Solvents, Inc. 2905 Shamrock Avenue Ft. Worth, TX 76109	\$40.95
Eisenking Products, Inc. 20542 San Jose Street Chatsworth, CA 91311	\$1,013.24
Embee Inc. 2136 S. Hathaway Street, Santa Ana, CA 92705	\$2,090.20
Fairchild Fasteners P.O. Box 2375 Carol Stream, IL 60132-2375	\$98.02
Femco Inc. 7142 Belgrave Avenue Garden Grove, CA 92841	\$128.51
Foremost Industrial Exchange P.O. Box 7916 Van Nuys, CA 91409-1068	\$142.50
Garwood Laboratories, Inc. 7829 Industry Avenue Pico Rivera, CA 90660	\$600.00
Gas Company P.O. Box C Monterey Park, CA 91756	\$211.83
General Aircraft Company 321 Kinetic Drive Oxnard, CA 93030	\$3,235.38
Global Computer Supplies <sup>5</sup> P.O. Box 5465 Carson, CA 90749-5465	\$5,374.05
Goldenwest Lubricants, Inc. 1816 Potreo Avnue South El Monte, CA 91733-	\$359.43
GSC Foundries, Inc. 2738 Commerce Way Ogden, UT 84401	\$5,377.30

<sup>5</sup> Disputed Claim: Proof of claim filed in the amount of \$11,697.35

Name & Mailing Address Including Zip Code	Amount of Claim
High Pressure Systems 8200 South West 29 <sup>th</sup> Street Oklahoma City, OK 73179-3601	\$165.60
Hillyard File #12506 Los Angeles, CA 90074-2506	\$289.51
Hitachi Seiki USA Inc. 250 Brenner Drive Congers, NY 10920	\$595.13
Howmet Aluminum Casting Inc. <sup>6</sup> 201 Cercon Drive Hillsboro, TX 76645	\$17,918.96
Huntington Park Rubber Stamp 2761 E. Slauson Ave. P.O. Box 519 Huntington Park, CA 90255	\$179.01
Industrial Pipe and Steel Co. 9936 East Rush Street South El Monte, CA 91733	\$89.48
J & L Industrial Supply 1020 Solution Supply Chicago, IL 60677-1000	\$1,396.00
Jamaica Bearing 1700 Jericho Turnpike New Hyde Park, NY 11040	\$281.66
Joachim Machinery Co. 980 Knox Street Torrance, CA 90502	\$281.66
John W. Schultz 3570 San Pasqual Pasadena, CA 91107	\$947.00
Johnson Lift/Hyster Box 60007 City of Industry, CA 91716-9600	\$198.29
Marilyn Schulz 3444 San Pasqual Pasadena, CA 91107	\$473.50
MESCO 1237 South Shamrock Avenue Monrovia, CA 91016	\$3,653.96

<sup>6</sup> Disputed Claim: Proof of claim filed in the amount of \$24,435.21

Name & Mailing Address Including Zip Code	Amount of Claim
Mitchell Laboratories, Inc. 7707 Bequette Avenue Pixo Rivera, CA 90660	\$3,982.00
Mitutoyo Corp. P.O. Box 94032 Chicago, IL 60690	\$920.00
New Hampshire Ball Bearings, I P.O. Box 4767 Los Angeles, CA 90051-4767	\$1,641.22
Newton Heat Treating Co. Inc. 19235 E. Walnut Drive City of Industry, CA 91748	\$547.65
Office Depot Credit Plan Dept 56-4204011976 P.O. Box 9020 Des Moines, IA 50368-9020	\$1,364.07
Omni Metal Finishing, Inc. 11665 Coley River Cir. Fountain Valley, CA 92708	\$1,206.62
Pacific Bell Payment Center Van Nuys, CA 91388-0001	\$603.02
Pechiney Rolled Products 22112 Network Place Chicago, IL 60673-1221	\$15,708.63
PRC-Desoto P.O. Box 951490 Dallas, TX 95395-1490	\$161.61
Precision Instr. Correction Co. 28 Centerpointe Dr. La Palma, CA 90623	\$30.00
Prime Alloy Steel Castings P.O. Box 513589 Los Angeles, CA 90051-3589	\$8,976.24

Name & Mailing Address Including Zip Code	Amount of Claim
Prudential Overall Supply P.O. Box 11210 Santa Ana, CA 92711	\$1,305.08
Aurora Casting <sup>7</sup> 1790 Lemonwood Drive Santa Paula, CA 93060	\$882.17
Quad City Coating Inc. 3560 S 11 <sup>th</sup> Avenue Eldridge, IA 50317	\$1,518.60
RBC Transport Dynamics Corp. P.O. Box 1953 Santa Ana, CA 92702	\$13,319.04
Rudell Carbide Inc. P.O. Box 456 Chino, CA 91708-0456	\$13,346.81
Saw Service of America 8210 Industry Avenue Pico Rivera, CA 91776	\$1,117.09
Shell Oil Company P.O. Box 9016 Des Moines, IA 50368-9016	\$266.21
Solidiform Inc. P.O. Box 99214 Forth Worth, TX 76199-0214	\$13,192.20
SOS Ecology Management 8500 Whittier Blvd. Pico Rivera, CA 90660	\$625.00
Southern California Edison Co P.O. Box 600 Rosemead, CA 91771-0001	\$5,350.15
Star Maint. Supply Co. 5430 NN. Rosemenad Blvd. San Gabriel, CA 91776	\$253.37
Stillman Seal P.O. Box 8500-53553 Philadelphia, PA 19178-3553	\$2,740.29
Sunnen 7910 Manchester Avenue St. Louis, MO 63143	\$981.77

<sup>7</sup> Also known as Quad City Coating Inc., 3560 S 11<sup>th</sup> Avenue, Eldridge, IA 50317. Quad City has filed a proof of claim in the amount of \$1,518.60. The Company's records list the amount as \$882.17. Thus the amount of the claim is disputed.

Name & Mailing Address Including Zip Code	Amount of Claim
Temperature Standards Lab. 138 W. Pomona Ave. Monrovia, CA 91016	\$65.00
Texas Nameplate Co., Inc. P.O. Box 150499 Dallas, TX 75315-0499	\$801.24
The Aviant Group <sup>8</sup> P.O. Box 33574 Chicago, IL 60694-3574	\$26,095.70
Thompson Gundrilling Inc. 13840 Saticoy Street Van Nuys, CA 91402	\$5,501.00
Transtar Metals P.O. Box 59906 Los Angeles, CA 90059-0906	\$6,276.75
Tri-Star Precision 10356 E. Rush Street South El Monte, CA 91733	\$1,632.65
U. S. Shop Tools 1340 S. Allec. St. Anaheim, CA 92805-6305	\$160.72
Union Ink Company, Inc. 453 Broad Avenue Ridgefield, NJ 07657	\$479.71
Unocal 76 P.O. Box 52202 Phoenix, AZ 85072-2202	\$51.70
W. W. Grainger, Inc. Dept. 440 – 84255138 Palatine, IL 60038	\$47.48
Wesco Aircraft Hardware Corp. P.O. Box 802020 Santa Clarita, CA 91380-020	\$1,454.11
Xerox Corporation P.O. Box 7405 Pasadena, CA 91109-7405	\$56.22
Dept. of the Treasury – Internal Revenue Service <sup>9</sup> 31 Hopkins Plaza Stop Room 1140 Baltimore, MD 21201	\$5,500.00

<sup>8</sup> Disputed Claim: Proof of claim filed in the amount of \$26,911.00

<sup>9</sup> This proof of claims has been paid by the Debtors.



Name & Mailing Address Including Zip Code	Amount of Claim
Modern Engineered Services Co., Mesco <sup>10</sup> 1237 S. Shamrock Avenue Monrovia, CA 91016	\$3,144.57
State of California, Employment Development Dept. <sup>11</sup> P.O. Box 826880 Bankruptcy Unit MIC 92E Sacramento, CA 94280-0001	\$1,608.30

---

<sup>10</sup> This is a disputed claim. The Debtors' records do not show this claim.

<sup>11</sup> This proof of claims has been paid by the Debtors.

# **Exhibit E**

## SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Second Amendment to Loan and Security Agreement (the "Second Amendment") is made as of October 25, 2002, between Congress Financial Corporation (Central) ("Lender") and Fansteel Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Fansteel"), Fansteel Holdings, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Holding Sub"), Custom Technologies Corp., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Custom"), Escast, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, an Illinois corporation ("Escast"), Wellman Dynamics Corp., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Wellman"), Washington Manufacturing Company, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Washington"), Phoenix Aerospace Corp., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Phoenix"), American Sintered Technologies, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("American") and Fansteel Schulz Products, Inc., CHAPTER 11 DEBTOR-IN-POSSESSION, a Delaware corporation ("Schulz"; Fansteel, Holding Sub, Custom, Escast, Wellman, Washington, Phoenix, American and Schulz are collectively "Borrowers" and individually a "Borrower").

### RECITALS

WHEREAS, Borrowers and Lender are parties to that certain Loan and Security Agreement dated May 2, 2002 (as the same has been amended, supplemented or otherwise modified, the "Loan Agreement") and various other documents, instruments and agreements (as amended, supplemented or otherwise modified from time to time, the "Financing Agreements");

WHEREAS, Fansteel has proposed to enter into a certain Stock Purchase Agreement dated as of October \_\_, 2002 among Fansteel, Schulz and the "Proposed Purchaser" party thereto, pursuant to which the Proposed Purchaser would purchase from Fansteel all of the issued and outstanding capital stock of Schulz (the "Schulz Purchase Agreement"); and

WHEREAS, in connection with the Schulz Purchase Agreement, Lender and Borrowers have agreed to amend the definition of the term "Deposits" set forth in Loan Agreement so that such term includes the \$235,000 Good Faith Deposit being provided by the Proposed Purchaser and any other Good Faith Deposit provided in connection with a Qualified Bid (as each such term is defined in the Schulz Purchase Agreement);

NOW THEREFORE, in consideration of the provisions set forth herein, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Terms. Unless otherwise defined herein, capitalized terms used herein shall have the same meanings herein as given to such terms in the Loan Agreement.

2. Amendment to Loan Agreement. Section 1.24 of the Loan Agreement is amended and restated in its entirety, as follows:

1.24 "Deposits" shall mean (A) the amounts held on deposit as of May 2, 2002 or (or held on deposit after May 2, 2002 to the extent such amounts constitute proceeds of letters of credit issued prior to the date hereof) in an aggregate amount of up to \$5,000,000 (i) for the benefit of the Nuclear Regulatory Commission in connection with the owned Real Property of Fansteel in Muskogee, Oklahoma, (ii) as required by applicable workers compensation laws, (iii) as required by borrower's insurers and (iv) in connection with existing security deposits; provided, that notwithstanding anything in the foregoing to the contrary, no amounts on deposit with American National Bank & Trust Company shall constitute Deposits; and (B) amounts consisting of the \$235,000 Good Faith Deposit provided by the "Proposed Purchaser" and any other "Good Faith Deposit" provided in connection with a "Qualified Bid" (in each case, under and as defined in the Stock Purchase Agreement dated as of October \_\_, 2002 among Fansteel, Schulz and the Proposed Purchaser party thereto).

3. Acknowledgement of Lender. By its signature below, Lender acknowledges and agrees that the performance by National City Bank, MI., IL. ("National City") of its duties under the Escrow Agreement (as defined in the Schulz Purchase Agreement) in accordance with the terms thereof shall not be construed as a violation of any of National City's duties and obligations under the Lock Box and Blocked Account Agreement dated as of May 2, 2002 among National City, Lender and Borrowers.

4. Consent Regarding Use of Proceeds. Borrowers and the Lender hereby agree that all of the proceeds from the consummation of the sale of the stock of Schulz pursuant to the Schulz Purchase Agreement (the "Sale Proceeds") shall be deposited in an account controlled by the Lender pursuant to a control agreement satisfactory to Lender. So long as no Event of Default has occurred and is continuing, the Sale Proceeds may be withdrawn from such account by Borrowers and used as provided for in the next sentence (with such proceeds remaining in such account that is controlled by the Lender if an Event of Default has occurred and is continuing). Borrowers and the committee of unsecured creditors appointed in the Bankruptcy Case (the "Committee") have agreed that the Sale Proceeds may be used to pay any of the following: (i) any court approved professional fees pursuant to Order Under 11 U.S.C. §§ 105(a) and 331 Establishing Procedures For Interim Compensation and Reimbursement of Expenses For Professionals and Committee Members entered February 20, 2002 and Order Authorizing Debtors To Employ And Compensate Certain Professionals Utilized In The Ordinary Course of Business entered February 21, 2002; (ii) claims of critical vendors pursuant to that Stipulated And Agreed Order Modifying Order Authorizing Payment of Pre-Petition Critical Vendors Claims And Establishing Procedures For Future Arrangements entered March 14, 2002; (iii) allowed administrative expenses under 11 U.S.C. § 503(b) as the Borrowers and the Committee may agree from time to time; and (iv) for all costs and expenses incurred in connection with the above referenced

sale of the stock of Schulz under the Schulz Purchase Agreement, including but not limited to, publication, mailing and copying costs.

5. Condition. This Second Amendment shall be effective upon its execution and delivery by all parties hereto.

6. Miscellaneous.

(a) Expenses. Borrowers agree to pay, on demand, all costs and expenses of Lender (including the fees and expenses of outside counsel for Lender) in connection with the preparation, negotiation, execution, delivery and administration of this Second Amendment and all other instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. All obligations provided in this Section 3(a) shall survive any termination of the Loan Agreement as amended hereby.

(b) No Default. Borrowers represent and warrant that no Default or Event of Default has occurred and is continuing.

(c) Governing Law. This Second Amendment shall be a contract made under and governed by the internal laws of the State of Illinois.

(d) Counterparts. This Second Amendment may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same amendment.

(e) Successors. This Second Amendment shall be binding upon Borrowers and Lender and their respective successors and assigns, and shall inure to the benefit of Borrowers, Lender and their respective successors and assigns.

(f) Ratification. Except as herein amended, the Loan Agreement shall remain unchanged and in full force and effect, and is hereby ratified in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be executed by their respective officers thereunto duly authorized and delivered at Chicago, Illinois as of the date first above written.

LENDER

CONGRESS FINANCIAL CORPORATION FANSTEEL INC.  
(CENTRAL)

By \_\_\_\_\_  
Title \_\_\_\_\_

BORROWERS

By R. Michael M. Ltee  
Title VP- CFO

FANSTEEL HOLDINGS, INC.

By R. Michael M. Ltee  
Title TREASURER

CUSTOM TECHNOLOGIES CORP.

By R. Michael M. Ltee  
Title TREASURER

ESCAST, INC.

By R. Michael M. Ltee  
Title VICE PRESIDENT

WELLMAN DYNAMICS CORP.

By R. Michael M. Ltee  
Title VICE PRESIDENT

WASHINGTON MANUFACTURING  
COMPANY, INC.

By R. Michael M. Ltee  
Title VICE PRESIDENT

PHOENIX AEROSPACE CORP.

By R. Michael M. Ltee  
Title TREASURER

AMERICAN SINTERED  
TECHNOLOGIES, INC.

By R. Michael M. Ltee  
Title VICE PRESIDENT

FANSTEEL SCHULZ PRODUCTS, INC.

By R. Michael M. Ltee  
Title VICE PRESIDENT

# **Exhibit F**



## ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of October 25, 2002, by and among HANCOCK PARK ASSOCIATES or its affiliate (the "Proposed Purchaser"), FANSTEEL, INC. (the "Seller") and NATIONAL CITY BANK, MI., IL., as Escrow Agent (the "Escrow Agent").

### W I T N E S S E T H

WHEREAS, on January 15, 2002, the Seller and its wholly-owned domestic subsidiaries, including the Company (the "Debtors"), each filed petitions for relief under 11 U.S.C. §§ 101, et seq. (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware. The cases were transferred to the United States District Court for the District Court of Delaware (the "Court") on January 22, 2002 and procedurally consolidated and jointly administered under case number 02-10109. The Debtors continue to manage their respective properties and operate their respective businesses as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code; and

WHEREAS, the Proposed Purchaser and the Seller are parties to a Stock Purchase Agreement, dated October 25, 2002 (the "Agreement"), pursuant to which the Proposed Purchaser is acquiring all of the issued and outstanding shares of capital stock of the Company (the "Shares"). The Agreement provides for the payment and delivery by the Proposed Purchaser of funds into a segregated escrow account hereby established, to be held and dealt with by the Escrow Agent as herein provided.

NOW THEREFORE, in consideration of the premises and of the mutual agreements contained herein, and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

SECTION 1. Definitions. Capitalized terms used herein that are defined in the Agreement that are not otherwise defined herein shall have the meaning set forth in the Agreement. The following terms shall have the following meanings when used herein:

"Escrow Funds" shall mean a Good Faith Deposit (as defined in the Agreement) in the amount of \$235,000 deposited by the Proposed Purchaser with the Escrow Agent pursuant to this Escrow Agreement, plus any and all interest earned thereon, as from time to time invested and reinvested as herein provided.

"Escrow Period" shall mean the period commencing on the date hereof and ending on the earlier of (i) the Closing (as defined in the Agreement) or (ii) upon termination of the Agreement in accordance with Article IX of the Agreement.

"Joint Written Direction" shall mean a written direction executed by the Proposed Purchaser and the Seller and directing the Escrow Agent to disburse all or a portion of the Escrow Funds or to take or refrain from taking an action pursuant to this Escrow Agreement in connection with the appropriate Good Faith Deposit.

"Party Entitled to Escrow Funds" shall mean (a) the Proposed Purchaser, in the event that the Proposed Purchaser is entitled to a return of its Good Faith Deposit in accordance with Section 9.02 of the Agreement or (b) the Company.

SECTION 2. Appointment of and Acceptance by Escrow Agent. The Proposed Purchaser and the Seller hereby appoint Escrow Agent to serve as escrow agent hereunder. Escrow Agent hereby accepts such appointment and, upon receipt by wire transfer of the Escrow Funds in accordance with Section 3, agrees to hold, invest and disburse the Escrow Funds in accordance with this Escrow Agreement. The Escrow Agent does not have any interest in the Escrow Fund deposited hereunder but is serving as escrow holder only and having only possession thereof.

SECTION 3. Creation of Escrow Fund. As of the date hereof, the Proposed Purchaser, on behalf of the Seller, shall transfer the sum of \$235,000 to Escrow Agent, by wire transfer of immediately available funds, to the following account (the "Escrow Account"):

National City Bank, MI., IL.  
One National City Parkway  
Kalamazoo, MI 49009  
RT. #07200915  
Acct. #88426502

REF: Escrow Fund for Qualified Bidders/ [Hancock]

SECTION 4. Disbursements of Escrow Fund.

Section 4.01 Joint Written Direction. Escrow Agent shall disburse Escrow Funds, at any time and from time to time, in accordance with a Joint Written Direction.

Section 4.02 Expiration of Escrow Period. Upon the expiration of the Escrow Period, Escrow Agent, upon three days prior notice from Seller, shall distribute and apply, as promptly as practicable and without any further instruction or direction from the Proposed Purchaser or the Seller, the Good Faith Deposit, as set forth on Exhibit A.

SECTION 5. Disbursement Into Court.

(a) If, at any time, there shall exist any dispute between the Proposed Purchaser and the Seller with respect to the holding or disposition of any portion of the Escrow Funds or any other obligations of Escrow Agent hereunder, or if at any time Escrow Agent is unable to determine, to Escrow Agent's sole satisfaction, the proper disposition of any portion of the Escrow Funds or Escrow Agent's proper actions with respect to its obligations hereunder, or if the Proposed Purchaser and the Seller have not within 30 days of the furnishing by Escrow Agent of a notice of resignation pursuant to Section 7 hereof, appointed a successor Escrow Agent to act hereunder, then Escrow Agent may, in its sole discretion, take either or both of the following actions:

(i) suspend the performance of any of its obligations (including without limitation any disbursement obligations) under this Escrow Agreement until such dispute or uncertainty shall be resolved to the sole satisfaction of Escrow Agent or until a

successor Escrow Agent shall have been appointed (as the case may be); provided, however, that Escrow Agent shall continue to invest the Escrow Funds in accordance with Section 6 hereof; and/or

(ii) petition (by means of an interpleader action or any other appropriate method) the Court, for instructions with respect to such dispute or uncertainty, and to the extent required by law, pay into the Court for holding and disposition in accordance with the instructions of the Court, all funds held by it in the Escrow Funds.

(b) Escrow Agent shall have no liability to the Proposed Purchaser, the Seller or any other person with respect to any such suspension of performance or disbursement into Court, specifically including any liability or claimed liability that may arise, or be alleged to have arisen, out of or as a result of any delay in the disbursement of funds held in the Escrow Funds or any delay in or with respect to any other action required or requested of Escrow Agent.

#### SECTION 6. Investment of Funds.

(a) Escrow Agent shall invest and reinvest the funds held in the Escrow Account in (subject to applicable minimum investments) shares in money market funds whose assets consist primarily of direct obligations of the United States of America or obligations the principal of and the interest on which are unconditionally guaranteed by the United States of America.

(b) If Escrow Agent has not received a Joint Written Direction at any time that an investment decision must be made, Escrow Agent shall invest the Escrow Funds, or such portion thereof as to which no such Joint Written Direction has been received, in investments described in clause (i) of Subsection (a) above. Each of the foregoing investments shall be made in the name of Escrow Agent. Notwithstanding anything to the contrary contained herein, Escrow Agent may, without notice to the Proposed Purchaser or the Seller, sell or liquidate any of the foregoing investments at any time if the proceeds thereof are required for any release of funds permitted or required hereunder, and Escrow Agent shall not be liable or responsible for any loss, cost or penalty resulting from any such sale or liquidation. Any such loss, cost or penalty shall reduce the amount of the Escrow Funds.

#### SECTION 7. Recordkeeping.

(a) The Escrow Agent shall maintain a ledger (the "Escrow Ledger") setting forth (i) the name and address of the Seller and the Proposed Purchaser, (ii) all income or other items added to and distributions from or other items charged against the Escrow Fund; and (iii) with respect to any distribution to the Proposed Purchaser pursuant to this Escrow Agreement, the provision of this Escrow Agreement pursuant to which such distribution has been made.

(b) The Escrow Agent shall deliver to the Proposed Purchaser and the Seller a statement (a "Final Statement") setting forth (i) the value of the Escrow Fund as of the Closing Date; (ii) the amount of income of the Escrow Fund during the period covered by such Final Statement; and (iii) the amount of any expenses incurred and payments and distributions made during the period covered in such Final Statement and the payee thereof. The Escrow Agent

shall deliver the Final Statement to the Proposed Purchaser and to the Seller one day prior to the Closing, upon 3 days prior notice from the Seller.

SECTION 8. Resignation and Removal of Escrow Agent; Successor Escrow Agent.

(a) Escrow Agent may resign from the performance of its duties hereunder at any time by giving 30 days' prior written notice to the Proposed Purchaser and the Seller or may be removed, with or without cause, by the Proposed Purchaser and the Seller, acting jointly by furnishing a Joint Written Direction to Escrow Agent, at any time by the giving of 30 days' prior written notice to Escrow Agent. Such resignation or removal shall take effect upon the appointment of a successor Escrow Agent as provided herein below.

(b) Upon any such notice of resignation or removal, the Proposed Purchaser and the Seller jointly shall appoint a successor Escrow Agent hereunder, which shall be a commercial bank, trust company, or other financial institution with a combined capital and surplus in excess of \$100,000,000. Upon the acceptance in writing of any appointment as Escrow Agent hereunder by a successor Escrow Agent, such successor Escrow Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Escrow Agent, and the retiring Escrow Agent shall be discharged from its duties and obligations under this Escrow Agreement, but shall not be discharged from any liability for actions taken as Escrow Agent hereunder prior to such succession. In the event that no successor Escrow Agent shall be appointed within 30 days of any resignation by the Escrow Agent hereunder, the Escrow Agent may apply to the Court for the appointment of a successor Escrow Agent. After any retiring Escrow Agent's resignation or removal, the provisions of this Escrow Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Escrow Agent under this Escrow Agreement. The retiring Escrow Agent shall transmit all records pertaining to the Escrow Funds and shall pay all funds held by it in the Escrow Funds to the successor Escrow Agent, after making copies of such records as the retiring Escrow Agent deems advisable and after deduction and payment to the retiring Escrow Agent of all reasonable fees and expenses (including court costs and attorneys' fees) incurred by, and payable to, the retiring Escrow Agent in connection with the performance of its duties and the exercise of its rights hereunder.

SECTION 9. Liability of Escrow Agent; Indemnification .

(a) The Escrow Agent shall not be liable for and, the Proposed Purchaser and Seller shall on an equal basis, jointly indemnify and hold harmless the Escrow Agent (and any successor Escrow Agent) from and against, any and all losses, liabilities, claims, actions, damages and reasonable expenses, including attorneys' fees and disbursements, arising out of or in connection with this Escrow Agreement; provided that the Escrow Agent shall be liable for its own gross negligence or willful misconduct with respect to losses, liabilities, claims, actions damages and expenses, including attorneys' fees and disbursements, based upon such gross negligence or willful misconduct that are successfully asserted against the Escrow Agent. Without limiting the foregoing, the Escrow Agent shall in no event be liable in connection with its investment or reinvestment of any cash held by it hereunder in good faith, in accordance with the terms hereof, including, without limitation, any liability for any delays (not resulting from its

gross negligence or willful misconduct) in the investment or reinvestment of the Escrow Funds, or any loss of interest incident to any such delays.

(b) The parties agree that the payment by the Proposed Purchaser and Seller in respect of any claim by Escrow Agent hereunder for indemnification shall not impair, limit, modify, or affect, as between the Proposed Purchaser and the Seller, the respective rights and obligations of the Proposed Purchaser, on the one hand, and the Seller, on the other hand, hereunder or under the Agreement.

(c) The Escrow Agent shall not be entitled to proceed against the Escrow Fund, nor shall the Escrow Agent be entitled to any offset against the Escrow Account, including any proceeding or offset for any of its fees, disbursements, expenses (including counsel fees and disbursements, if any) or losses suffered by the Escrow Agent in connection with any action, suit, proceeding, claim or demand arising out of or relating to this Escrow Agreement.

SECTION 10. Reliance. The Escrow Agent shall be entitled to rely upon any order, judgment, certification, demand, notice, instrument or other writing delivered to it hereunder without being required to determine the authenticity or the correctness of any fact stated therein or the propriety or validity or the service thereof. The Escrow Agent may act in reliance upon any instrument or signature believed by it to be genuine and may assume that any person purporting to give notice or receipt or advice or purporting to make any statement or to execute any document in connection with the provisions hereof has been duly authorized to do so. The Escrow Agent and any agent thereof may act pursuant to the advice of counsel with respect to any matter relating to this Escrow Agreement and shall not be liable for any action taken or omitted in accordance with such advice.

SECTION 11. Fees and Expenses of Escrow Agent. The Party Entitled to Escrow Funds shall bear the responsibility to pay the fees and compensation payable to Escrow Agent for its services hereunder and, in addition, shall reimburse Escrow Agent for all of its reasonable out-of-pocket expenses, including attorneys' fees, travel expenses, telephone and facsimile transmission costs, postage (including express mail and overnight delivery charges), copying charges and the like. The obligations under this Section 11 shall survive any termination of this Escrow Agreement and the resignation or removal of Escrow Agent. The Party Entitled to Escrow Funds hereby authorizes the Escrow Agent to debit the Escrow Account for the amount due to the Escrow Agent under this Section 11 in the event that the Escrow Agent has not received the amounts due to it within 60 days of the date of any invoice rendered by it with respect to such amounts.

SECTION 12. Representations and Warranties.

(a) The Proposed Purchaser makes the following representations and warranties to the Escrow Agent and the Seller:

(i) The Proposed Purchaser is a corporation validly existing and in good standing under the laws of its jurisdiction of incorporation and has the corporate power and authority to execute and deliver this agreement and perform its obligations hereunder.

(ii) This Escrow Agreement has been duly approved by all necessary corporate action of the Proposed Purchaser, including any necessary shareholder approval, has been executed by duly authorized officers of the Proposed Purchaser, and constitutes a valid and binding agreement of the Proposed Purchaser, enforceable in accordance with its terms, except as such enforceability may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and as such obligations are subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(iii) The execution, delivery, and performance by the Proposed Purchaser of this Escrow Agreement is in accordance with the Agreement and will not violate, conflict with, or cause a default under the organization agreements of the Proposed Purchaser, any applicable law or regulation, any court order or administrative ruling or decree to which the Proposed Purchaser is a party or any of its property is subject, or any agreement, contract, indenture, or other binding arrangement, including without limitation the Agreement, to which the Proposed Purchaser is a party or any of its property is subject.

(iv) No party other than the parties hereto have, or shall have, any lien, claim or security interest in the Escrow Funds or any part thereof. No financing statement under the Uniform Commercial Code is on file in any jurisdiction claiming a security interest in or describing (whether specifically or generally) the Escrow Funds or any part thereof.

(v) All of the representations and warranties of the Proposed Purchaser contained herein are true and complete as of the date hereof and will be true and complete at the time of any disbursement from the Escrow Funds.

(b) The Seller makes the following representations and warranties to the Escrow Agent and the Proposed Purchaser:

(i) The Seller has full power and authority to execute and deliver this Escrow Agreement and to perform its obligations hereunder.

(ii) This Escrow Agreement constitutes a valid and binding agreement of the Seller, enforceable in accordance with its terms, except as such enforceability may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and as such obligations are subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(iii) The execution, delivery, and performance by the Seller of this Escrow Agreement is in accordance with the Agreement and will not violate, conflict with, or cause a default under any applicable law or regulation, any court order or administrative ruling or decree to which such Seller is a party or any of its property is subject, or any agreement, contract, indenture, or other binding arrangement, including without limitation the Agreement, to which such Seller is a party or any of its property is subject.

(iv) No party other than the parties hereto have, or shall have, any lien, claim or security interest in the Escrow Funds or any part thereof. No financing

statement under the Uniform Commercial Code is on file in any jurisdiction claiming a security interest in or describing (whether specifically or generally) the Escrow Funds or any part thereof.

(v) All of the representations and warranties of such Seller contained herein are true and complete as of the date hereof and will be true and complete at the time of any disbursement from the Escrow Funds.

**SECTION 13. Tax Reporting Information and Certification of Tax Identification Numbers**

(a) The parties hereto agree that, for tax reporting purposes, all taxable interest on or other income, if any, attributable to the Escrow Funds or any other amount held in escrow by the Escrow Agent pursuant to the Agreement shall be allocable to the Party Entitled to Escrow Funds.

(b) The Party Entitled to Escrow Funds agrees to provide the Escrow Agent with its certified tax identification number by furnishing an appropriate form W-9 and any other forms and documents that the Escrow Agent may reasonably request (collectively, "Tax Reporting Documentation") to the Escrow Agent within 30 days after a request therefore. The parties hereto understand that, if such Tax Reporting Documentation is not so certified to the Escrow Agent, the Escrow Agent shall be required by the Internal Revenue Code, as it may be amended from time to time, to withhold and promptly remit to the Internal Revenue Service a portion of any interest or other income earned on the investment of monies or other property held by the Escrow Agent pursuant to this Escrow Agreement.

(c) The Party Entitled to Escrow Funds shall (i) assume any and all obligations imposed now or hereafter by any applicable tax law with respect to any payment or distribution of the Escrow Funds, or performance of other activities under this Agreement, including the payment of any transfer taxes relating to the Escrow Fund incurred in connection herewith; (ii) instruct the Escrow Agent in writing with respect to the Escrow Agent's responsibility for withholding and other taxes, assessments or other governmental charges, and instruct the Escrow Agent with respect to any certifications and governmental reporting that may be required under any laws or regulations that may be applicable in connection with its acting as Escrow Agent under this Escrow Agreement; and (iii) indemnify and hold the Escrow Agent harmless from any liability or obligation on account of taxes, assessments, additions for late payment, interest, penalties, expenses and other governmental charges that may be assessed or asserted against the Escrow Agent in connection with or relating to any payment made or other activities performed under this Escrow Agreement, including without limitation any liability for the withholding or deduction of (or the failure to withhold or deduct) the same, and any liability for failure to obtain proper certifications or to report properly to governmental authorities in connection with this Escrow Agreement, including costs and expenses (including reasonable legal fees and expenses), interest and penalties. The foregoing indemnification of the Escrow Agent shall not, however, apply with respect to the Escrow Agent's willful misconduct or gross misconduct.

(d) Notwithstanding the foregoing, the Escrow Agent shall have no responsibility under this Section 13 for the payment of income taxes or the filing of any returns

in connection therewith other than to provide the Party Entitled to Escrow Funds with copies of such records in the Escrow Agent's possession as are reasonably requested by the Party Entitled to Escrow Funds in connection with the filing of any such returns.

(e) The Party Entitled to Escrow Funds shall reimburse the party not entitled to the Escrow Funds for any taxes, tax indemnity or governmental charges paid with respect to any amount of the Escrow Fund that is ultimately distributed to the Party Entitled to Escrow Funds.

SECTION 14. Termination. Upon the first to occur of (i) the disbursement of all amounts in the Escrow Funds pursuant to Section 4, (ii) a or final court order or the disbursement of all amounts in the Escrow Funds into court pursuant to Section 5 hereof, or (iii) the resignation or removal of the Escrow Agent pursuant to Section 8, this Escrow Agreement shall terminate and Escrow Agent shall have no further obligation or liability whatsoever with respect to this Escrow Agreement or the Escrow Funds; provided that Section 13 regarding taxes shall survive notwithstanding any termination of this Escrow Agreement or the resignation of the Escrow Agent.

#### SECTION 15. Miscellaneous.

##### Section 15.01 Amendments and Waivers; Delays and Omissions.

(a) The provisions of this Escrow Agreement may not be amended, modified, supplemented or terminated, and waivers or consents to departures from the provisions hereof may not be given, without the joint written consent of the Proposed Purchaser and the Seller; provided, however, that no such amendment, modification, supplement, waiver or consent to departure with respect to this Section 16.1 (a) shall be made without the written consent, not to be unreasonably withheld, of all of the parties hereto; and provided, further, that, notwithstanding the foregoing, to the extent that any amendment, modification, supplement, termination, waiver or consent to departure shall uniquely and adversely alter the rights of any individual party, it shall require the consent of such party; and provided, further, that nothing herein shall prohibit any amendment, modification, supplement, termination, waiver or consent to departure, the effect of which is limited only to those parties who have agreed to such amendment, modification, supplement, termination, waiver or consent to departure.

(b) Except as expressly provided herein, no delay or omission to exercise any right, power or remedy accruing to any party, upon any breach of default of another party under this Escrow Agreement, shall impair any such right, power or remedy of such party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring.

Section 15.02 Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, telecopier, any nationally recognized courier guaranteeing overnight delivery, or first class registered or certified mail, return receipt requested, postage prepaid, addressed to the applicable party at the address set



forth below or such other address as may hereafter be designated by such party to the other parties in accordance with the provisions of this Section:

(a) If to the Proposed Purchaser, to:

Hancock Park Associates  
10323 Santa Monica Boulevard  
Suite 101  
Los Angeles, California 90025-5056  
Attn: Michael J. Fourticq, Sr.  
Telecopy: \_\_\_\_\_

With a copy to:  
Paul, Hastings, Janofsky & Walber LLP  
Twenty-Fifth Floor  
515 Flower Street  
Los Angeles, California 90071-2220  
Attn: Robert A. Miller, Jr., Esq.  
Telecopy: 213-627-0705

(b) If to the Seller, to:

Fansteel, Inc.  
One Tantalum Place  
North Chicago, Illinois 60064  
Attn: Chief Executive Officer  
Telecopy: (847) 689-0307

With a copy to the Seller:

Schulte Roth & Zabel LLP  
919 Third Avenue  
New York, New York 10022  
Attn: Andre Weiss  
Telecopy: (212) 593-5955

(c) If to the Escrow Agent, to:

National City Bank, MI, IL.  
One National City Parkway  
Kalamazoo, MI 49009  
Attn: Debi Bussell  
Telecopy: (248) 988-2000

All such notices and communications shall be deemed to have been duly given: at the time delivered, if delivered by hand; when noted on a confirmation report (or if such delivery date is not a business day, on the next business day), if telecopied; on the next business day, if timely delivered to a nationally recognized courier guaranteeing overnight delivery; five days following the date mailed, if deposited in the United States mail, postage prepaid, certified or registered, return receipt requested.

Section 15.03 Successors and Assigns. This Escrow Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns. For purposes of this Escrow Agreement, "successor" for any entity other than a natural person shall mean a successor to such entity as a result of such entity's merger, consolidation, sale of substantially all of its assets or similar transaction.

Section 15.04 Counterparts. This Escrow Agreement may be executed in counterparts, each of which, when so executed and delivered, shall be deemed to be an original and enforceable, but all of which counterparts, taken together, shall constitute one and the same instrument.

Section 15.05 Descriptive Headings, Etc. The headings in this Escrow Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of terms contained herein. Unless the context of this Escrow Agreement otherwise requires: (i) words of any gender shall be deemed to include each other gender; (ii) words using the singular or plural number shall also include the plural or singular number, respectively; (iii) the words "hereof", "herein" and "hereunder" and words of similar import when used in this Escrow Agreement shall refer to this Escrow Agreement as a whole and not to any particular provision of this Escrow Agreement, and Section and paragraph references are to the Sections and paragraphs of this Escrow Agreement; (iv) the word "including" and words of similar import when used in this Escrow Agreement shall mean "including, without limitation," unless otherwise specified; (v) "or" is not exclusive; and (vi) provisions apply to successive events and transactions.

Section 15.06 Severability. In the event that any one or more of the provisions, paragraphs, words, clauses, phrases or sentences contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision, paragraph, word, clause, phrase or sentence in every other respect and of the other remaining provisions, paragraphs, words, clauses, phrases or sentences hereof shall not be in any way impaired, it being intended that all rights, powers and privileges of the parties hereto shall be enforceable to the fullest extent permitted by law; provided that this Section 15.06 shall not cause this Escrow Agreement to differ materially from the intent of the parties as herein expressed.

Section 15.07 Governing Law. This Escrow Agreement shall be governed by, and construed in accordance with, the laws of the State of New York (without giving effect to the conflict of laws principles thereof). Each of the parties hereto irrevocably and unconditionally consents to submit to the jurisdiction of New York and to the Court, for any litigation arising out of or relating to this Agreement and the transactions contemplated thereby (and agrees not to commence any litigation relating thereto except in such courts), waives any objection to the

laying of venue of any such litigation therein, and agrees not to plead or claim that such litigation has been brought in an inconvenient form.

Section 15.08 Entire Agreement. This Escrow Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants or undertakings relating to such subject matter, other than those set forth or referred to herein. This Escrow Agreement supersedes all prior agreements and understandings between the Escrow Agent and the other parties to this Escrow Agreement, both written and oral, with respect to such subject matter.

Section 15.09 Further Assurances. Each party hereto shall do and perform or cause to be done and performed all such further acts and things and shall execute and deliver all such other agreements, certificates, instruments and documents as any other party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Escrow Agreement and the consummation of the transactions contemplated hereby. Any out-of-pocket costs associated with complying with this Section shall be borne by the requesting party.

Section 15.10 Construction. The parties hereto acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Escrow Agreement with its legal counsel and that this Escrow Agreement shall be construed as if jointly drafted by the parties.

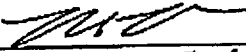
Section 15.11 Remedies; Specific Performance. The parties hereto acknowledge that money damages would not be an adequate remedy at law if any party fails to perform in any material respect any of its obligations hereunder, and accordingly agree that each party, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to seek to compel specific performance of the obligations of any other party under this Escrow Agreement, without the posting of any bond, in accordance with the terms and conditions of this Escrow Agreement in any court of the United States or any State thereof having jurisdiction, and if any action should be brought in equity to enforce any of the provisions of this Escrow Agreement, none of the parties hereto shall raise the defense that there is an adequate remedy at law. No remedy shall be exclusive of any other remedy. All available remedies shall be cumulative.

Section 15.12 Cost and Expenses. Except as provided in Section 16.10, the parties hereto shall each bear their own costs and expenses, including, but not limited to, legal fees, with respect to this Escrow Agreement and the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed under seal as of the date first above written.

PROPOSED PURCHASER:

HANCOCK PARK ASSOCIATES

By:   
Name: Mike Farley Jr.  
Title:

SELLER:

FANSTEEL INC.

By: \_\_\_\_\_  
Name:  
Title:

ESCROW AGENT:

NATIONAL CITY BANK, MI, IL.

By: \_\_\_\_\_  
Name:  
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed under seal as of the date first above written.

PROPOSED PURCHASER:

HANCOCK PARK ASSOCIATES

By: \_\_\_\_\_

Name:

Title:

SELLER:

FANSTEEL INC.

By: R. Michael McEntee

Name: R. Michael McEntee

Title: Vice President, Chief Financial Officer

ESCROW AGENT:

NATIONAL CITY BANK, MI., IL.

By: \_\_\_\_\_

Name:

Title:

Oct 25 02 03:40p

J & D Busse11

734-243-4293

P.2

FROM SCHULTE ROTH & ZABEL LLP a2

(FRI) 10. 25' 02 15:23/ST. 15:17/NO. 4260783012 P 13

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement  
to be executed under seal as of the date first above written.

PROPOSED PURCHASER:

HANCOCK PARK ASSOCIATES

By: \_\_\_\_\_

Name:

Title:

SELLER:

FANSTEEL INC.

By: \_\_\_\_\_

Name:

Title:

ESCROW AGENT:

NATIONAL CITY BANK, ML, IL.

By: Debi Busse11

Name:

Title:

Debi Busse11

Vice President

Treasury Mgmt.

Regional Mgt.

## EXHIBIT A

### Application of Good Faith Deposit

The Good Faith Deposit shall be applied toward the Purchase Price at Closing in accordance with instructions to be provided by the Seller.

In the event that the Agreement is terminated in accordance with Section 9.02, unless otherwise agreed by the Proposed Purchaser and the Seller and approved by the Court, the Good Faith Deposit shall be returned to the Proposed Purchaser pursuant to Section 9.02 of the Agreement in accordance with the instructions to be provided by the Proposed Purchaser.

In the absence of such agreement and approval, if the agreement is otherwise terminated, the Good Faith Deposit and the interest attributable to the Escrow Funds shall become the property of the Seller.

# Exhibit G



**SECOND ADDENDUM TO LEASE**

THIS SECOND ADDENDUM TO LEASE is an addendum to that certain Industrial/Commercial Lease between Marilyn Lenore Schulz, as to an undivided 25% interest, Doris Schulz, as to an undivided 25% interest, and John White Schulz and Lucille Schulz, Trustees of the Schulz Family Trust, as to an undivided 50% interest ("Lessor") AND Fansteel Schulz Products, Inc. ("Lessee") dated as of September 30, 1997 related to property located at 855 East Commercial Avenue, San Gabriel, CA 91776, which Lease was previously amended by the Addendum to Lease of even date therewith.

The printed lease (as previously modified) is further modified as follows:

**53. Extended Term.** Paragraph 1.3 is modified by adding the following at the end thereof: "The term of the Lease is hereby extended, effective as of September 30, 2002 ("Original Expiration Date"), to September 30, 2004 at 11:59 AM ("Extended Expiration Date")."

**54. Early Termination.** The preceding paragraph notwithstanding, Lessee may, at any time on or after January 1, 2003, elect to terminate this lease at a time earlier than the Extended Expiration Date, by giving not less than ninety (90) days' written notice to Lessor, specifying the early termination date. No notice so given may be withdrawn or modified without the written consent of Lessor. The failure to vacate the premises in accordance with any such notice of early termination shall constitute holding over and entitle Lessor to holdover rent as provided elsewhere in the Lease and its Addendum.

**55. Modified Rent.** Paragraph 1.5 is modified by adding the following at the end thereof: "From the Original Expiration Date to the earlier of Tenant's vacating the premises or the Extended Expiration Date, Base Rent shall be the sum of \$6,600.00 per month."

**56. Modified Security Deposit.** Paragraph 1.7 is modified by deleting "\$3,000.00" and substituting "7,000.00." Lessee shall deposit the additional security with Lessor concurrently with the execution of this Second Addendum.

**57. No Option to Extend Term.** Paragraph 50, added by the Addendum to Lease, is deleted in its entirety.

**58. No Right of First Refusal.** Paragraph 51, added by the Addendum to Lease, is deleted in its entirety.

**59. No Other Modification.** In all other respects, the Lease as previously modified remains in full force and effect.

Dated as of September 30, 2002.

\_\_\_\_\_  
Marilyn Lenore Schulz

\_\_\_\_\_  
Doris Schulz

SCHULZ FAMILY TRUST

By: \_\_\_\_\_  
John White Schulz, Trustee

By: \_\_\_\_\_  
Lucille Schulz, Trustee

"LESSOR"

FROM FANSTEEL INC.

(THU)10 3 2002 16:43/ST.16:42/NO.5011267409 P 5

FANSTEEL SCHULZ PRODUCTS, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

"LESSEE"

-3-

09-09-02 02:28pm

323-222-6768

From FANSTEEL CALIFORNIA DROP FORGE

09-09-02 02:28pm

# Exhibit H

R. Michael McEntee  
Vice President and  
Chief Financial Officer



October 23, 2002

Pension Benefit Guaranty Corporation  
1200 K Street, N.W.  
Washington, D.C. 20005-4026  
Attn: Rhonda Baird

Dear Ms. Baird:

As discussed with Michael Mitchell and Adam Faber of Schulte Roth & Zabel LLP, Fansteel Inc. ("Fansteel") is currently negotiating the sale of Fansteel Schulz Products, Inc. ("Schulz"). It is contemplated that a definite purchase agreement will be executed shortly and will therefore be submitted to the Court for its approval. We are writing to you, as requested, to confirm that although Schulz will, upon closing of the sale, cease to be a member of Fansteel's controlled group, causing a reportable event under Section 4043(c)(9) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), notice of the reportable event is waived under PBGC Reg. § 4043.29(c)(1) (de minimis 10-percent segment). Following the requirements set forth in the regulation, for the most recent fiscal year(s) ending on or before the date of the reportable event (December 31, 2001):

- (1) Schulz's revenue does not exceed 10 percent of the controlled group's revenue. Schulz's revenue was \$4,819,302 and the controlled group's revenue was 139,050,204 (3.47%).
- (2) Schulz's annual operating income does not exceed the greatest of
  - (i) 10 percent of the controlled group's annual operating income;
  - (ii) 5 percent of the controlled group's first \$200 million in net tangible assets at the end of the fiscal year; or
  - (iii) \$5 million; and

Schulz's operating income was \$794,851. The controlled group's operating income was a loss in 2001 and the controlled group's net tangible assets were valued at \$76,003,809. As a result, taking \$5 million as the greatest of 2(i), (ii) and (iii), Schulz's operating income of \$794,851 was less than \$5 million.



- (3) Schulz's net tangible assets at the end of the fiscal year does not exceed the greater of
- (i) 10 percent of the controlled group's net tangible assets at the end of the fiscal year; or
  - (ii) \$5 million.

Schulz's net tangible assets were \$1,987,399 and 10% percent of the controlled group's net tangible assets were valued at \$7,600,380.90.

We hope this letter satisfies your inquiry regarding the fulfillment of the requirements of a waiver of notice under PBGC Reg. § 4043.29(c)(1).

Please call us with any questions or comments.

Sincerely,

FANSTEEL INC.

A handwritten signature in cursive script that reads "R. Michael McEntee".

R. Michael McEntee

RMM:mb

# Exhibit I

IN THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN  
DISTRICT OF DELAWARE

In re:	)	Chapter 11
	)	
FANSTEEL INC., <u>et al.</u> , <sup>1</sup>	)	Case No. 02-10109 (JJF)
	)	(Jointly Administered)
Debtors.	)	

**AFFIDAVIT OF DISINTERESTEDNESS**

STATE OF CALIFORNIA       )  
                                      )  
COUNTY OF LOS ANGELES    )

Michael J. Fourticq, Jr. declares as follows:

1. I am a principal of Hancock Park Associates (the "Company"), that maintains offices at 10323 Santa Monica Boulevard, Suite 101, Los Angeles, California 90025-5056.
2. To the best of my knowledge, information and belief, formed after due inquiry, the company does not have any connection with the Debtors and does not currently represent any of their creditors, other parties-in-interest, the United States Trustee or any person employed by the Office of the United States Trustee with respect to the sale of stock under the Stock

---

<sup>1</sup> the Debtors are the following entities: Fansteel Inc., Fansteel Holdings, Inc., Custom Technologies Corp., Escast, Inc., Wellman Dynamics corp., Washington Mfg. Co., Phoenix Aerospace corp., American Sintered Technologies, Inc., and Fansteel Schulz Products, Inc.



Purchase Agreement between Fansteel Inc. and the Company dated October 24, 2002 (the "Stock Sale"), and the Company does not, by reason of any direct or indirect relationship to, connection with or interest in the Debtors, hold or represent any interest adverse to the Debtors, their estates or any class of creditors or equity interest holders.

3. In light of the foregoing, I believe that the Company does not hold or represent any interest materially adverse to the Debtors, their respective estates, creditors or equity interest holders with respect to the Stock Sale and is neither an "affiliate" nor an "insider" of the Debtors as defined under section 101 of the Bankruptcy Code and is therefore entitled to all the protections of section 363(m) of the Bankruptcy Code.



Michael J. Fourticq, Jr.

# Exhibit J

# RSM McGladrey

RSM McGladrey, Inc.  
330 Dundee Rd., Ste. 425 Northbrook, IL 60062-2772  
D 847.291.9600 F 847.291.9693  
www.rsmmcgladrey.com

October 25, 2002

Mr. Mike McEntee  
Fansteel Inc  
Vice President and Chief Financial Officer  
Number One Tantalum Place  
North Chicago, IL 60064

Dear Mike:

Based on our conversations with you we understand, Fansteel is contemplating the sale of its wholly owned Subsidiary, Schulz Products.

You have requested that we provide in writing the Federal net operating loss carryforward to 12/31/2002 in order to assist you in calculating any taxes that may be due on the sale of the subsidiary.

The current Federal net operating loss carryovers to 12/31/2002 are as follows:

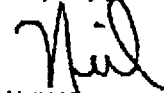
Regular income tax NOL carryforward - \$1,704,407  
Alternative Minimum Tax NOL Carryforward - \$1,033,232

These amounts are based on the 12/31/2001 Federal corporate consolidated income tax return and carryback claim prepared by our office. The returns were prepared based on information provided to us by your internal tax department. The NOL carryforward is subject to adjustment upon audit by the Internal Revenue Service or the Joint Committee on Taxation. We are also in the process of determining whether Fansteel may be entitled to certain deductions and credits for 2001 that would increase the net operating loss carryforward.

We have not calculated the tax gain on the sale of the subsidiary or researched the state tax ramifications of the sale.

Please feel free to contact us if you have any questions or need additional information.

Very truly yours,



Neil I Kaplan

IN WITNESS WHEREOF, the Seller, the Proposed Purchaser and the Company have caused this Agreement to be executed on their behalf by their duly authorized officers, as of the date first above written.

PROPOSED PURCHASER:

MM Acquisition Corp.

By: [Signature]

Its: Secretary

SELLER:

FANSTEEL INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

COMPANY:

FANSTEEL SCHULZ PRODUCTS, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

IN WITNESS WHEREOF, the Seller, the Proposed Purchaser and the Company have caused this Agreement to be executed on their behalf by their duly authorized officers, as of the date first above written.

PROPOSED PURCHASER:

\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

SELLER:

FANSTEEL INC.

By: R. Michael McLee

Its: Vice President and CFO

COMPANY:

FANSTEEL SCHULZ PRODUCTS, INC.

By: R. Michael McLee

Its: Vice President

# Exhibit K



March 8, 2002

Mr. Gary L. Tessitore  
Chairman, President and Chief Executive Officer  
Fansteel Inc.  
Number One Tantalum Place  
North Chicago, IL 60064

Dear Mr. Tessitore:

By our mutual agreement, the parties hereby amend the letter agreement dated January 14, 2002 (the "Letter Agreement") as follows:

1. Paragraph 8 (c) of the Letter Agreement is deleted in its entirety and the following is inserted in its place:

8 (c) If a Transaction or Transactions are consummated with the Division or Divisions (a "Specified Division") listed below there shall be paid to Lincoln Partners fees ("Success Fee") as indicated:

Division(s)	Success Fee
California Drop Forge or the combination of California Drop Forge and Schulz Products, Inc.	The greater of (i) \$200,000, plus \$100,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price up to and including \$4.5 million, plus 7.5% of Sale Price above \$4.5 million up to and including \$8.0 million, plus 10.0% of Sale Price above \$8.0 million, plus \$100,000 if a Transaction is closed within 90 days of engagement.
Schulz Products, Inc.	The greater of (i) \$175,000, plus \$50,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price above \$0.5 million up to and including \$3.0 million, plus 7.5% of Sale Price above \$3.0 million up to and including \$5.5 million, plus 10.0% of Sale Price above \$5.5 million, plus \$50,000 if a Transaction is closed within 90 days of engagement.
VR/Wesson -Hydro Carbide (including Plantsville and Lexington)	\$300,000 plus 5% of Sale Price above \$14.0 million up to and including \$20.0 million, plus 7.5% of Sale Price above \$20.0 million, plus \$200,000 if a Transaction is closed within 90 days of engagement.



VR/Wesson -Hydro Carbide

\$200,000 plus 5% of Sale Price above \$11.5 million up to and including \$14.5 million, plus 7.5% of Sale Price above \$14.5 million, plus \$150,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Hydro Carbide and Plantsville

\$200,000 plus 5% of Sale Price above \$13.0 million up to and including \$18.5 million, plus 7.5% of Sale Price above \$18.5 million, plus \$150,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Hydro Carbide and Lexington

\$200,000 plus 5% of Sale Price above \$13.0 million up to and including \$18.5 million, plus 7.5% of Sale Price above \$18.5 million, plus \$150,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Plantsville

The greater of (i) \$175,000, plus \$50,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price above \$0.5 million up to and including \$3.0 million, plus 7.5% of Sale Price above \$3.0 million up to and including \$5.5 million, plus 10.0% of Sale Price above \$5.5 million, plus \$50,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Lexington

The greater of (i) \$175,000, plus \$50,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price above \$0.5 million up to and including \$3.0 million, plus 7.5% of Sale Price above \$3.0 million up to and including \$5.5 million, plus 10.0% of Sale Price above \$5.5 million, plus \$50,000 if a Transaction is closed within 90 days of engagement.

In the event of a separate Transaction with a Prospective Purchaser for a Division or Divisions (other than a Specified Division) or the Company, Lincoln Partners shall be entitled to a Success Fee per Transaction equal to \$200,000 plus a percentage of the Sale Price over an amount to be negotiated in good faith by the Company and Lincoln Partners. No Success Fee shall be due Lincoln Partners for a transaction related to a Division that is not a Specified Division or the Company with an entity that is not a Prospective Purchaser.



FANSTEEL, INC. Fax: 847-689-1816  
03/09/2002 00:38 2127870543

Oct 21 2002 9:45 P.04  
FANSTEEL, INC. PAGE 01

FANSTEEL, INC. Fax: 847-689-1816  
MAR. 8. 2002 4:26PM LINCOLN PARTNERS

Mar 8 2002 18:34 P.05  
NO. 7246 P. 4



2. Paragraph 13 of the Letter Agreement is hereby amended to delete in its entirety the second sentence of Paragraph 13.

If the foregoing correctly sets forth our understanding, please sign this Letter Agreement Amendment in the space provided and return to us.

Very truly yours,  
Lincoln Partners LLC

By: Patrick M. Goy  
Patrick M. Goy  
Managing Director

Accepted and agreed to this  
8<sup>th</sup> day of March 2002

Fansteel Inc.

By: Gary L. Tibbitts  
Gary L. Tibbitts  
Chairman, President and Chief Executive Officer

FANSTEEL, INC.  
MAR. 8. 2002 4:26PM

Fax:847-689-1816  
LINCOLN PARTNERS

Oct 21 2002 9:41 P.02  
NO. 7246 P. 2



March 8, 2002

Mr. Gary L. Tessitore  
Chairman, President and Chief Executive Officer  
Fansteel Inc.  
Number One Tantalum Place  
North Chicago, IL 60064

Dear Mr. Tessitore:

By our mutual agreement, the parties hereby amend the letter agreement dated January 14, 2002 (the "Letter Agreement") as follows:

1. Paragraph 8 (c) of the Letter Agreement is deleted in its entirety and the following is inserted in its place:

8 (c) If a Transaction or Transactions are consummated with the Division or Divisions (a "Specified Division") listed below there shall be paid to Lincoln Partners fees ("Success Fee") as indicated:

<u>Division(s)</u>	<u>Success Fee</u>
California Drop Forge or the combination of California Drop Forge and Schulz Products, Inc.	The greater of (i) \$200,000, plus \$100,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price up to and including \$4.5 million, plus 7.5% of Sale Price above \$4.5 million up to and including \$8.0 million, plus 10.0% of Sale Price above \$8.0 million, plus \$100,000 if a Transaction is closed within 90 days of engagement.
Schulz Products, Inc.	The greater of (i) \$175,000, plus \$50,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price above \$0.5 million up to and including \$3.0 million, plus 7.5% of Sale Price above \$3.0 million up to and including \$5.5 million, plus 10.0% of Sale Price above \$5.5 million, plus \$50,000 if a Transaction is closed within 90 days of engagement.
VR/Wesson -Hydro Carbide (including Plantsville and Lexington)	\$300,000 plus 5% of Sale Price above \$14.0 million up to and including \$20.0 million, plus 7.5% of Sale Price above \$20.0 million, plus \$200,000 if a Transaction is closed within 90 days of engagement.

181 West Madison Street, Ste 3750  
Chicago, Illinois 60602

tel 312.580.8339  
fax 312.580.8317

web [www.lincolnpartners.com](http://www.lincolnpartners.com)



VR/Wesson -Hydro Carbide

\$200,000 plus 5% of Sale Price above \$11.5 million up to and including \$14.5 million, plus 7.5% of Sale Price above \$14.5 million, plus \$150,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Hydro Carbide and Plantsville

\$200,000 plus 5% of Sale Price above \$13.0 million up to and including \$18.5 million, plus 7.5% of Sale Price above \$18.5 million, plus \$150,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Hydro Carbide and Lexington

\$200,000 plus 5% of Sale Price above \$13.0 million up to and including \$18.5 million, plus 7.5% of Sale Price above \$18.5 million, plus \$150,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Plantsville

The greater of (i) \$175,000, plus \$50,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price above \$0.5 million up to and including \$3.0 million, plus 7.5% of Sale Price above \$3.0 million up to and including \$5.5 million, plus 10.0% of Sale Price above \$5.5 million, plus \$50,000 if a Transaction is closed within 90 days of engagement.

VR/Wesson -Lexington

The greater of (i) \$175,000, plus \$50,000 if a Transaction is closed within 90 days of engagement or (ii) 5% of Sale Price above \$0.5 million up to and including \$3.0 million, plus 7.5% of Sale Price above \$3.0 million up to and including \$5.5 million, plus 10.0% of Sale Price above \$5.5 million, plus \$50,000 if a Transaction is closed within 90 days of engagement.

In the event of a separate Transaction with a Prospective Purchaser for a Division or Divisions (other than a Specified Division) or the Company, Lincoln Partners shall be entitled to a Success Fee per Transaction equal to \$200,000 plus a percentage of the Sale Price over an amount to be negotiated in good faith by the Company and Lincoln Partners. No Success Fee shall be due Lincoln Partners for a transaction related to a Division that is not a Specified Division or the Company with an entity that is not a Prospective Purchaser.

FRANSTEEL, INC.  
03/09/2002 00:38 2127870543

Fax: 847-689-1816

FRANSTEEL, INC.

Oct 21 2002 9:45  
Mar 8 2002 18:34

P. 04  
P. 05  
PAGE 01

FRANSTEEL, INC.

Fax: 847-689-1816

MAR. 8. 2002 4:26PM

LINCOLN PARKMETS

NO. 7246 P. 4



2. Paragraph 13 of the Letter Agreement is hereby amended to delete in its entirety the second sentence of Paragraph 13.

If the foregoing correctly sets forth our understanding, please sign this Letter Agreement Amendment in the space provided and return to us.

Very truly yours,  
Lincoln ParkMets LLC  
By: Patrick M. Goy  
Patrick M. Goy  
Managing Director

Accepted and agreed to this  
01<sup>st</sup> day of March 2002

FRANSTEEL Inc.

By: Gary L. Thibault  
Gary L. Thibault  
General President and Chief Executive Officer